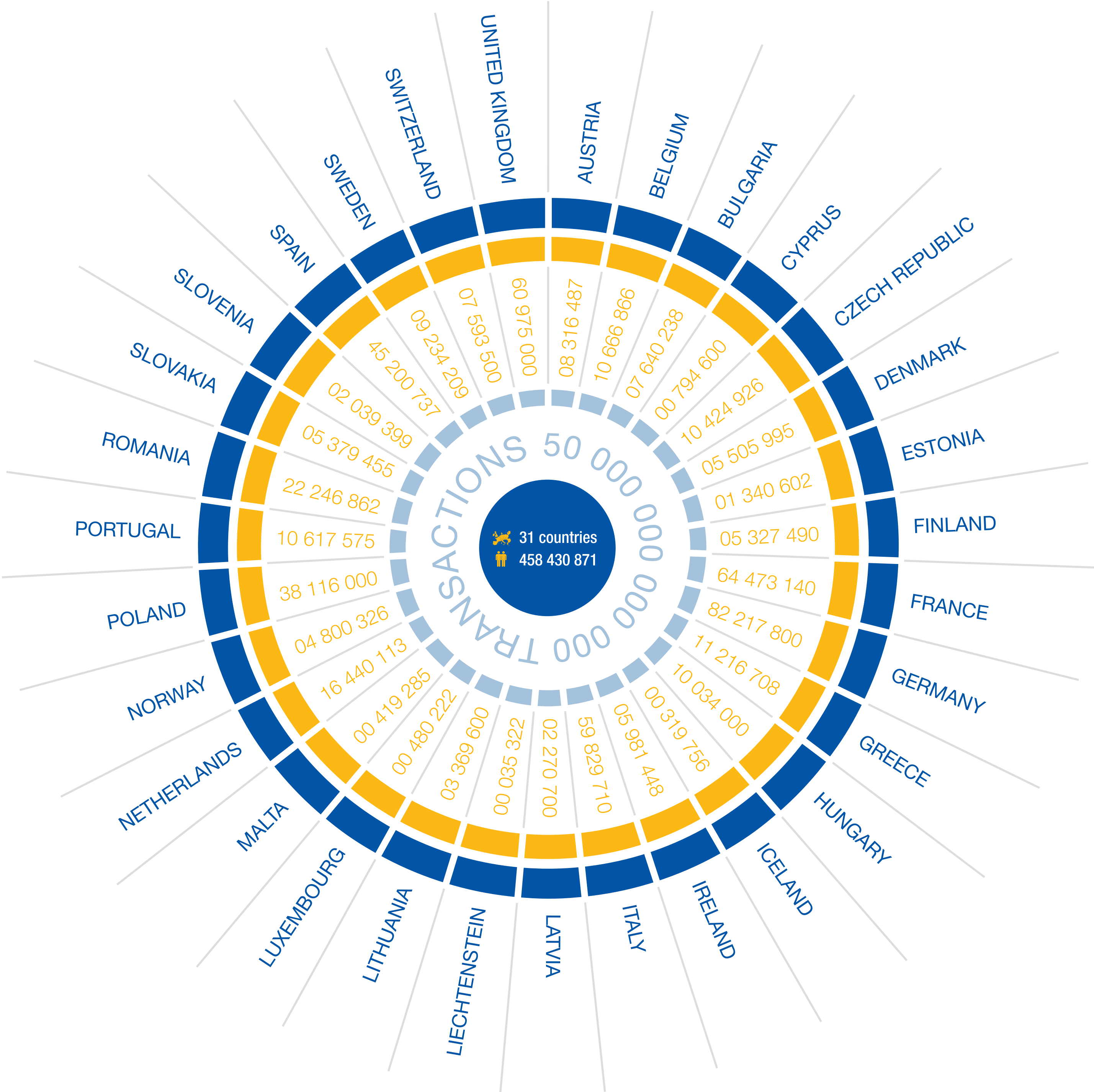
31 SEPA COUNTRIES

AUSTRIA
BELGIUM
BULGARIA
CYPRUS
CZECH REPUBLIC
DENMARK
ESTONIA
FINLAND
FRANCE
GERMANY
GREECE
HUNGARY
ICELAND
IRELAND
ITALY
LATVIA
LIECHTENSTEIN
LITHUANIA
LUXEMBOURG
MALTA
NETHERLANDS
NORWAY
POLAND
PORTUGAL
ROMANIA
SLOVAKIA
SLOVENIA
SPAIN
SWEDEN
SWITZERLAND
UNITED KINGDOM

EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

MAKING S€PA A REALITY

The definitive Guide to the SINGLE EURO PAYMENTS AREA



SEPA

Single Euro Payments Area

- SEPA countries
- Population
- Electronic payment transactions

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TAKE PAYMENTS TO THE NEXT LEVEL

ABSTRACT

1.

What is SEPA?

The Single Euro Payments Area (SEPA) is the area where citizens, companies and other economic participants can make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location. The geographical scope of SEPA encompasses the 27 EU member states, Iceland, Liechtenstein, Norway and Switzerland.

What impact will it have on the payments market?

SEPA is an EU-wide policy-maker-driven integration initiative which will have an impact on all euro payments as a result of the introduction of SEPA payment schemes and standards. Every citizen, merchant, public administration and corporate with a banking relationship in the euro area will eventually be affected by SEPA, as will everyone in the payment supply chain.

What impact will it have on the economy and society?

SEPA will create the conditions for enhanced competition in the provision of payment services. It will also generate, through harmonisation, more efficient payment systems and deliver tangible benefits for the economy and society as a whole. The common currency will be systemically strengthened by a harmonised set of euro payment instruments.

What has been delivered so far?

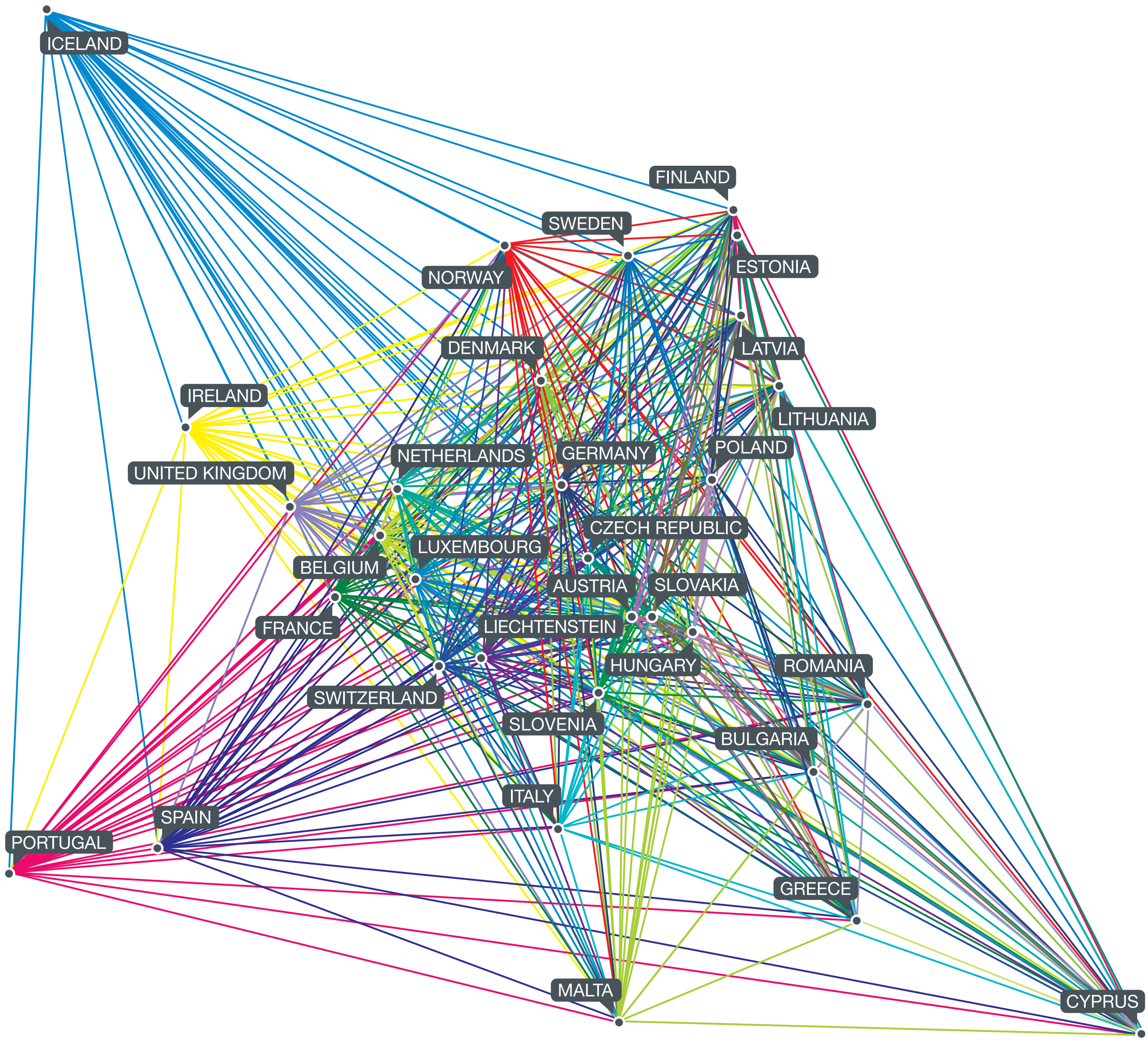
The European banking industry has defined SEPA schemes for credit transfers and direct debits together with a SEPA Data Format based on global ISO standards. The SEPA Credit Transfer Scheme was successfully launched in January 2008. The general SEPA-wide launch date for the SEPA Direct Debit Schemes has been set in principle by the EPC for November 2009, the point in time when EU member states have adopted a common legal framework for payments. For payment cards, a new SEPA Cards Framework has also been agreed and is in the process of being implemented by banks, card schemes and card processors.

What are the benefits?

Once SEPA is achieved, it will be possible to exchange euro payments between any accounts in SEPA as easily as it is possible today only within national borders. Common standards, faster settlement and simplified processing will improve cash flow, reduce costs and facilitate access to new markets. Moreover, customers will benefit from the development of innovative products offered by payment sector suppliers.

Make SEPA a success!

The European banking industry has successfully delivered innovative and commonly applicable SEPA payment schemes and frameworks. It is now up to the political drivers of the SEPA initiative – EU governments, the European Commission (EC) including the ECOFIN and the Governing Council of the European Central Bank (ECB) – to create the incentives needed to facilitate the migration of bank customers to the new SEPA instruments.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PORTUGAL
GREECE
MALTA
CYPRUS

SEPA: VISION AND GOALS

2.

2.1 The vision

The Single Euro Payments Area – SEPA – will be the area where citizens, companies and other economic participants make and receive payments in euro, whether between or within national boundaries, under the same basic conditions, rights and obligations. In the long-term, the uniform SEPA schemes and standards are expected to replace the national payment systems now being operated in Europe.

SEPA is an EU-wide policy-maker-driven integration initiative in the area of payments designed to achieve the completion of the EU internal market and monetary union. Following the introduction of euro notes and coins in 2002, the political drivers of the SEPA initiative – EU governments, the European Commission and the European Central Bank – focused on harmonising the euro payments market. Integrating the multitude of national payment systems existing today is a natural step towards making the euro a truly single and fully functioning currency. SEPA will become a reality when a critical mass of euro payments has migrated from legacy payment instruments to the new SEPA payment instruments.

Although European banks have decided to take a leading role in this migration by self-regulation, SEPA will be realised only when key stakeholders such as the business community and public administrations embrace the SEPA vision and commit to implementing the necessary changes.

2.2 The scope

The euro area alone currently processes some 50 billion electronic retail transactions and between two to four times again in cash each year. This massive volume is generated by 321.5 million citizens, 16-18[1] million large and small corporates, some 8,000 banks[2], 5.75 million points of sale and 293,008 ATM (statistical data based on ECB Blue Book, August 2007, unless otherwise indicated).

SEPA is currently defined as consisting of the EU 27 member states plus Iceland, Norway, Liechtenstein and Switzerland.

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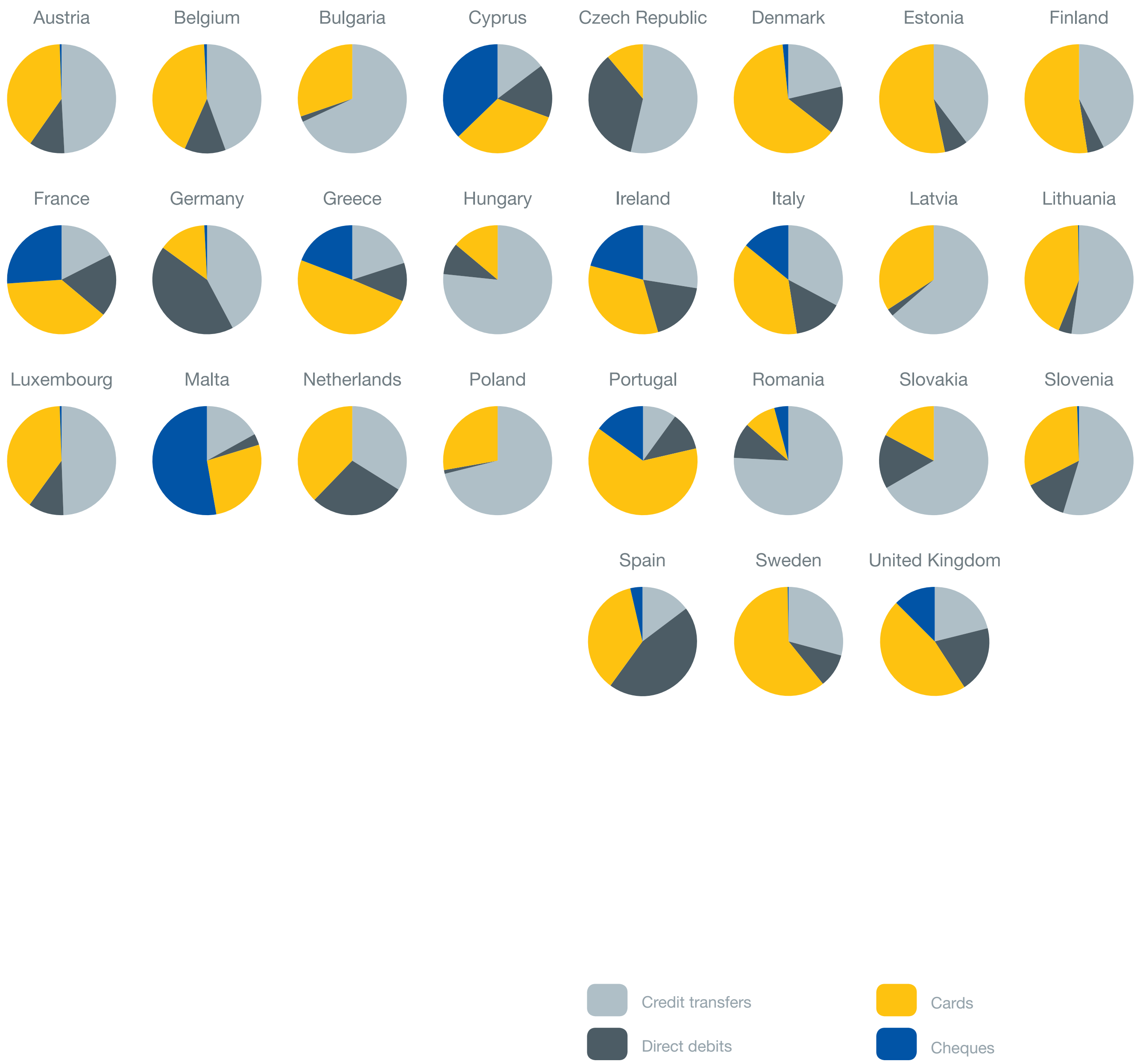
MALTA
NETHERLANDS
NORWAY
POLAND
PORTUGAL
ROMANIA
SLOVAKIA
SLOVENIA
SPAIN
SWEDEN
SWITZERLAND
UNITED KINGDOM

[1] 2003 Observatory of European SMEs
[2] Estimated

RELATIVE IMPORTANCE OF PAYMENT INSTRUMENTS



Percentages of total volume of transactions 2006
(2004 for the Czech Republic)
Source: European Central Bank

2.3 The goals

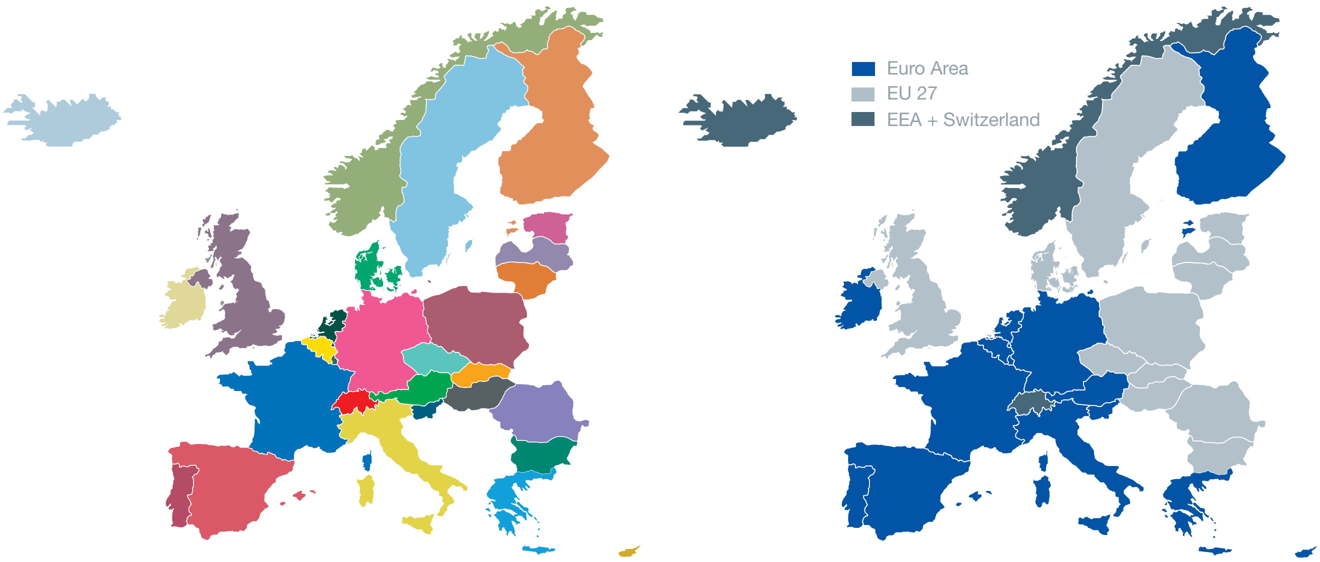
The overall goals of SEPA were defined by EU governments in the Lisbon Agenda, which envisages the EU internal market as the most competitive knowledge-based economy globally. The integration of euro payments markets is a major prerequisite for the realisation of this vision. As such, SEPA is considered a necessary step towards strengthening the European economy as a whole. At the same time, SEPA will increase competition in the payments services sector to the benefit of customers such as consumers, enterprises and public administrations.

According to a recent study conducted at the request of the European Commission, the replacement of existing national payment systems by SEPA holds a market potential of up to €123 billion in benefits, cumulative over six years and benefiting the users of payments services.

In addition, the European Commission and the European Central Bank expect SEPA to serve as a stepping stone towards revolutionising electronic services in the payment and public services sectors, leading to further cost reductions and efficiency gains to the benefit of customers.

THE SEPA VISION

PRE-SEPA SEPA



PRE-SEPA	SEPA
National / local solutions	Common solutions with additional optional services
Different payment instruments and standards, customer experiences, consumer laws	Common core payment instruments and standards, consistent customer experience, application of harmonised consumer protection laws
Cross-border complexity and risk	Reduced complexity and improved efficiency: all SEPA payments are domestic payments

3.

The political rationale for harmonisation of the euro payments market has been championed and driven by the European Commission (EC) in close cooperation with the European Council and the European Parliament. Much as with the euro introduction, SEPA's high level requirements and implementation timelines have been defined and set by the Governing Council of the European Central Bank (ECB). The design of the SEPA schemes and standards necessary to turn this political vision into reality is the responsibility of the European Payments Council (EPC) as is the monitoring of implementation and migration.

3.1 SEPA and the European Commission

The history of the SEPA project reaches back to 1990 with the publication of a European Commission report "Making Payments in the Internal Market" which outlined a community vision of a single payments area stating "the full benefits of the single market will only be achieved if it is possible for business and individuals to transfer money as rapidly, reliably and cheaply from one part of the community to another as is now the case with(in) most member states". Although this vision primarily referred to retail cross border transfers, it became the founding principle on which calls for change were based over the next twelve years.

However, the harmonisation of the EU's markets in the areas of finance and banking services has proved to be complex. Structural differences in the revenue models have been an impediment to rapid harmonisation. Another key obstacle to progress was the diversity of national legal and business rules and standards within Europe's banking businesses. As a result, Automated Clearing Houses (ACHs) and electronic funds transfer at the Point of Sale (POS) systems operated using widely different standards and a diverse mix of commercial frameworks.

During the early/mid 1990's, the Commission's Directorate-General (DG) Internal Market and Services, together with various committees representing Europe's banks, co-operated to improve the choice of services available for cross border transfers. By 1995/1996, new players entered the market and service levels improved. However, Europe's banks were unable to address the bigger structural and political issue of a longer term need to harmonise Europe's payments market.

The high costs, risks and complexity of changing each national market and the host of mandated change projects already committed, meant bankers were reluctant to take on the risks of a large-scale harmonisation project without the full support of the rest of the European Union before the implementation of the euro. In a first step, however, cross-border credit transfers were made subject to minimum information and performance requirements under a 1997 EU Directive[3].

This period also saw a focus by the banking industry and its supervisors on high-value payment systems and the removal of systemic risk through the creation of Real-Time Gross Settlement systems and related projects such as Continuous Linked Settlement (CLS) in the foreign exchange market.

[3] Directive 97/5/EC of the European Parliament and the Council of 27 January 1997 on cross-border credit transfers.

In 1998, the European Commission found that the EU was still a long way from fully exploiting the benefits of the internal market for financial services and renewed its call for the integration of the European payments sector.

In 2001, the Commission laid the foundations of its SEPA policy through Regulation 2560/2001 on cross-border payments in euro, whereby banks are not permitted to impose different charges for domestic and cross-border payments or ATM withdrawals in the EU-27.

In addition, the EC recognised that a single payments market would only be possible within a common legal environment that would remove the local anomalies and differences. The first version of a New Legal Framework for Payments designed to harmonise the fragmented national legal provisions was issued in 2001. This working document ultimately resulted in the Payment Services Directive (PSD) published in the Official Journal of the European Union on 5 December 2007 (for details on the PSD please refer to chapter 12).

3.2 SEPA and the European Central Bank

The ECB has long argued that the montetary union remains incomplete until Europe converts to common electronic euro money across all forms of payment. More specifically, the ECB has defined the broad payment system requirements (after consultation with key stakeholders) that Europe's banks need to embody within the SEPA design and also established the timetable for implementation.

The ECB created the TARGET platform to realise an efficient and orderly euro payments settlement system for banks and central banks. This platform was replaced by a new platform, TARGET2, in November 2007.

The ECB takes an active role in the SEPA programme, publishing regular progress reports and organising frequent meetings with the banking industry, user groups and infrastructure providers. It has also taken measures in the cash area with a framework for cash recycling.

The ECB has been a highly pro-active promoter of the plan to harmonise Europe's payments and a catalyst for the creation of the SEPA concept reflecting its responsibility for the single euro currency.

ABOUT EPC

4.

The SEPA vision is supported by Europe's banks working together towards the integration of euro payments markets through the European Payments Council (EPC).

EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

In 2002, key European banks and their associations attended a workshop dedicated to the consideration of self-regulatory options to achieve payments harmonisation. The conclusions were consolidated into the White Paper "Euroland: our Single Payments Area" which described the required change programme as "the Single Euro Payments Area – SEPA". Thus "SEPA" was born. The European Payments Council, a new self -regulatory payments body, was subsequently established in June 2002 to design, specify and monitor the implementation of SEPA.

The European Payments Council is the decision-making and coordination body of the European banking industry in relation to payments.

The EPC defines common positions for core payments services, provides strategic guidance for standardisation, formulates best practices and supports and monitors implementation of decisions taken.

At the end of 2008, the EPC consists of 74 members comprising banks and banking communities. More than 300 professionals from 31 countries are directly engaged in the work programme of the EPC, representing all sizes and sectors of the banking industry within Europe.

4.1 SEPA: the first milestones

The SEPA schemes developed by EPC define sets of interbank rules and standards that have to be observed when executing SEPA payment transactions. The schemes provide a common understanding between banks (payments services providers) on how to move funds from account A to account B within SEPA. The EPC is responsible for the development and maintenance of SEPA payment schemes as defined in the Rulebooks published by the EPC itself.

To ensure the highest possible level of reach, efficiency and security of a payment scheme, the rules are agreed by the payments services providers themselves. This is done in a way that enables banks to maintain self-regulation and meet regulators' and stakeholders' expectations as efficiently as possible.

Whereas the rules and standards which make up a payment scheme are defined by banks in a collaborative space, the particular payment product offered to the customer is developed by individual banks or groups of banks operating in a competitive environment. So, provided that scheme rules are respected, payments services providers are free to add features and services of their choice to the actual payment product.

The development of payment products based on the SEPA schemes including all product-related features such as pricing is outside the scope of the EPC. For detailed SEPA customer propositions customers should contact the payments services provider of their choice.

Services offered by clearing systems and technology providers based on the SEPA schemes are governed by market forces and are outside the scope of the EPC.

The European banking industry has successfully made available the building blocks of SEPA first defined in the EPC Roadmap 2004 – 2010. The EPC Roadmap specifies the SEPA core deliverables to be put in place in order to realise the integrated euro payments market.

The EPC has achieved the following milestones:

- In January 2008, more than 4300 banks in 31 countries representing roughly 95 percent of the payment volume in Europe took a historical first step to starting SEPA by launching the SEPA Credit Transfer Scheme for euro payments.
- Approval of the SEPA Core Direct Debit Scheme and the SEPA Business to Business Direct Debit Scheme; the general SEPA-wide launch date for the SEPA Direct Debit Schemes has been set in principle by the EPC for November 2009.
- With the launch of the SEPA Credit Transfer, European banks are the first in the world to deploy a new global data format — the ISO 20022 XML message standards — for mass euro payment transactions. This innovation is likely to have an impact far beyond Europe, as corporates and banks in Asia and in the Americas have already started to realise the global implications of 31 countries moving jointly towards this international standard.
- Agreement on the use of a single account identifier based on global ISO standards "International Bank Account Number (IBAN)" and a single bank identifier based on the "Bank Identifier Code (BIC)".
- Approval of a SEPA Cards Framework for euro payments with a general purpose card including principles for banks, for card schemes, for card service providers and for other stakeholders.
- Agreement on a framework for pan-European clearing infrastructures.
- Design of a Cash Framework to support the shift towards electronic payment methods aimed at reducing the costs associated with cash handling.

To learn more about upcoming EPC projects please refer to chapter 19 of this publication.

SEPA schemes and standards will gradually replace existing electronic euro payment instruments in the SEPA area with an impact for every citizen, corporate, small and medium sized enterprise (SME), merchant and public administration. Following the migration of existing payment systems, all customers will be able to make and receive euro payments to and from any corporate, SME and public administration using the same uniform SEPA payment instruments.

4.2 Involvement of stakeholders

SEPA Schemes are being further developed by the EPC in accordance with a strict change management procedure and based on a predictable release schedule in close dialogue with customers. Representatives of the payments services user community cooperate in the EPC Customer Stakeholders Forum.

SEPA CREDIT TRANSFER SCHEME (SCT)

5.

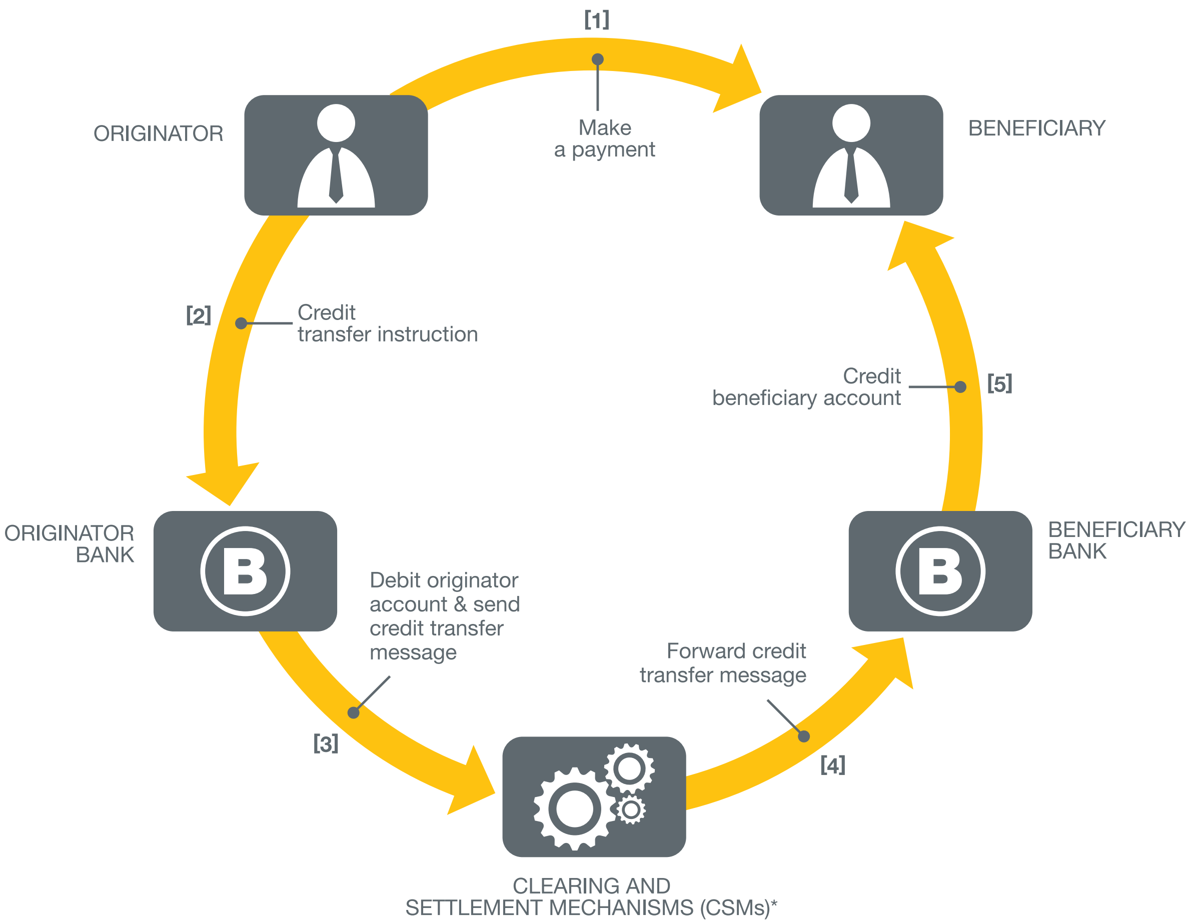
With regard to credit transfers in general, the originator (payer) completes a credit transfer instruction and forwards it to the originator's (payer's) bank by any agreed means [2].

The originator's bank receives and checks this, and rejects erroneous instructions, then the originator account is debited and the credit transfer is sent to the clearing and settlement mechanism (CSM) [3].

The CSM forwards the credit transfer message to the beneficiary bank and settles the amount of the transfer [4].

The beneficiary's bank receives the credit transfer message, checks the credit transfer message and credits the account of the beneficiary [5].

SEPA CREDIT TRANSFER SCHEME MODEL



* To learn more about CSMs, please refer to chapter 11

5.1 The scheme in a nutshell

The SEPA Credit Transfer Scheme enables payments services providers to offer a core and basic credit transfer service throughout SEPA, whether for single or bulk payments. The scheme's standards facilitate payment initiation, processing and reconciliation based on straight-through-processing (STP). The scope is limited to payments in euro within SEPA countries. The credit institutions executing the credit transfer must be scheme participants; i.e. both must have formally adhered to the SEPA Credit Transfer Scheme. There is no cap on the amount of the payment carried under the scheme.

The SEPA Credit Transfer Scheme Rulebook and the accompanying Implementation Guidelines approved by the EPC are the definitive sources of information regarding the rules and obligations of the scheme. The latest version of the SEPA Credit Transfer Scheme Rulebook and Implementation Guidelines can be obtained at www.europeanpaymentscouncil.eu.

5.2 Advantages of the SCT scheme

- The scheme offers benefits to originators and beneficiaries in terms of functionality, cost efficiency, ease of use and straight-through-processing
- Payments are made for the full original amount – there are no deductions; a customer involved in a credit transfer payment can only be charged by his own bank
- 140 characters of remittance information are delivered to the beneficiary without alteration or omission
- These 140 characters can be unstructured (free text) or structured, as agreed between business partners
- The accounts of all business partners in SEPA can be reached as safely, quickly and easily as in their own country today
- Certainty is provided about the date when the money will be available in the account of a business partner and one's own account
- A single standard for identifying and validating an account with a bank in Europe based on IBAN allows the storage of trusted information in a standardised way
- Rejects and returns can be automated, because they are handled in a uniform and predictable manner
- Single payments and bulk payments (e.g. one debit to the originator's account with multiple credits to the different beneficiaries) are supported

SEPA CORE DIRECT DEBIT SCHEME (SDD)

6.

With regard to direct debits in general, a mandate is given by the debtor to authorise the creditor to initiate direct debit payments (called collections) [1] and allows the debtor bank to pay those collections. Debtors are, however, entitled to request banks not to accept any direct debit collections on their accounts. A mandate can be a paper document or an electronic document created and signed in a secured environment. A mandate, after being signed by the debtor, must be sent to the creditor.

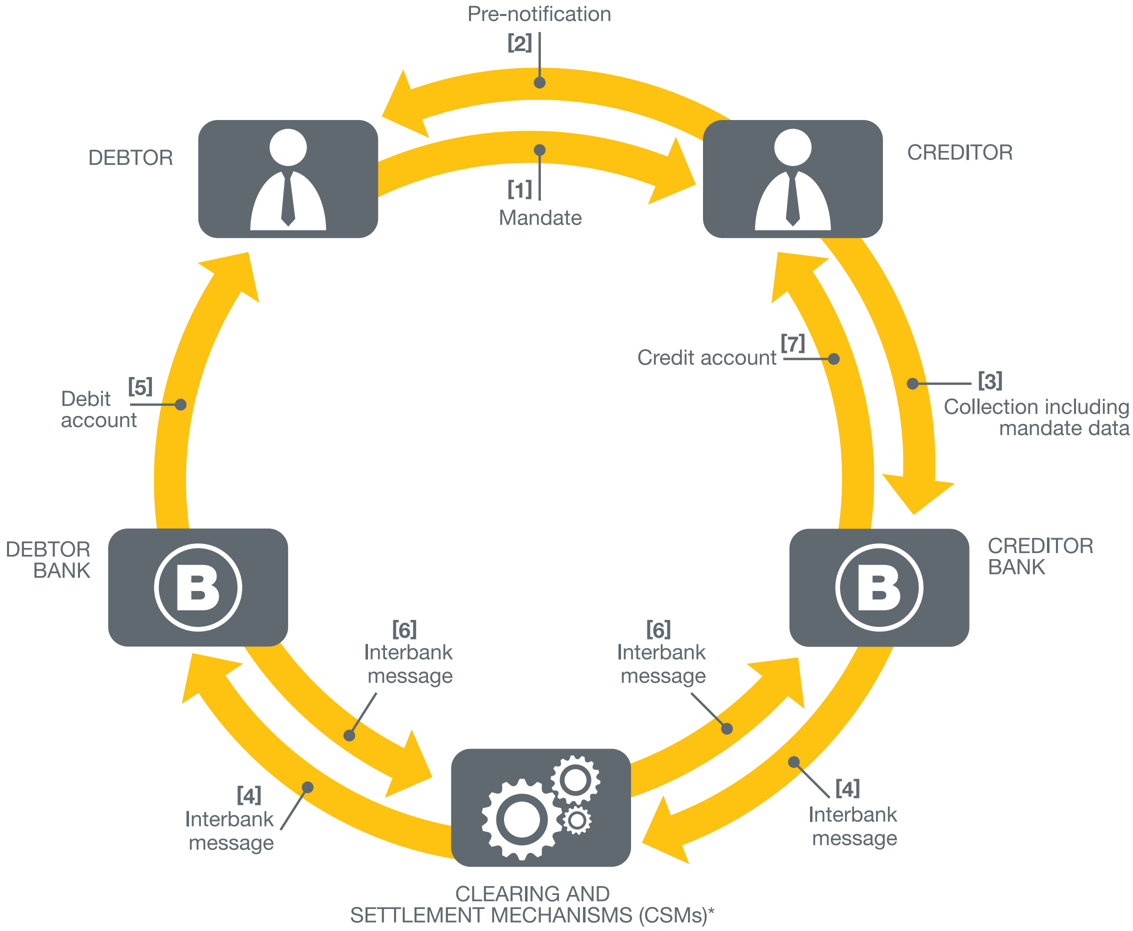
After receiving the signed mandate, the creditor may start to initiate collections. Before a collection, the creditor must send a pre-notification, an invoice for example, to the debtor [2], unless otherwise agreed between the two parties.

The signed mandate must be stored by the creditor as long as the mandate is valid. The mandate-related data are transmitted in electronic form along with each collection [3].

The debtor bank receives the interbank message [4] and debits the debtor's account [5].

The creditor bank receives the interbank message [6] and credits the creditor's account [7].

SEPA DIRECT DEBIT SCHEME MODEL



* To learn more about CSMs, please refer to chapter 11

6.1 The scheme in a nutshell

➪ The SEPA Core Direct Debit Scheme – like any other direct debit scheme – is based on the following concept: "I request money from someone else, with their prior approval, and credit it to myself".

➪ A mandate is signed by the debtor (payer) to authorise the creditor (payee) to collect a payment and to allow the debtor bank to pay this collection (debtors are entitled to instruct their banks not to accept any direct debit collection on their accounts). The mandate can be issued in paper form or electronically. The mandate expires 36 months after the last direct debit initiated whereupon it should be cancelled by the creditor. The signed mandate must be stored by the creditor as long as the mandate is valid and in accordance with national legal requirements.

➪ The SEPA Core Direct Debit Scheme applies to transactions in euro. The debtor and creditor must each hold an account with a credit institution located within SEPA. The credit institutions executing the direct debit transaction must be scheme participants; i.e. both must have formally adhered to the SEPA Direct Debit Scheme. The scheme may be used for single (one-off) or recurrent direct debit collections; the amounts are not limited.

6.2 E-mandate

➪ The SEPA Direct Debit Scheme has been designed to permit the development of additional features in response to customer needs. The SEPA Core Direct Debit Scheme now includes the possibility to create mandates through the use of electronic channels – called e-mandates.

➪ The inclusion of this new possibility for the creation of e-mandates brings further advantages to debtors: the debtor avoids the inconvenience of printing, signing and mailing a paper form to the creditor by using a fully electronic process. The e-mandate facility is based on secure, widely used online banking services of the debtor bank.

➪ The debtor can re-use his online banking credentials. No additional means of identification are necessary. The e-mandate features are based on global ISO standards as managed by SWIFT thus granting maximum transparency.

➪ The e-mandate solution will be an optional service offered by payments services providers to their customers; ie. it is not a mandatory part of the SEPA Direct Debit Scheme.

The SEPA Core Direct Debit Scheme Rulebook and the accompanying Implementation Guidelines approved by the EPC are the definitive sources of information regarding the rules and obligations of the scheme.
The latest version of the SEPA Core Direct Debit Scheme Rulebook and Implementation Guidelines can be obtained at www.europeanpaymentscouncil.eu

6.3 Advantages of the SDD scheme

Advantages for creditors

- A simple and cost-efficient way to collect funds
- The possibility to define the exact date of collection
- The certainty of payment completion within a predetermined time cycle
- The opportunity to optimise cash flow and treasury management
- Straightforward reconciliation of payments received
- The ability to automate exception handling such as: returned, rejected, or refunded collections and reversals
- The ability to collect funds from debtors using a single payment instrument across 31 countries

Advantages for debtors

- A simple means of paying bills throughout SEPA without the risk of late payments and the consequences thereof
- The SEPA Direct Debit is easy to use, because the scheme is accepted as a single, trusted payment service by all creditors in SEPA
- Straightforward reconciliation of debits on account statements
- The possibility to sign either a paper-based or a fully electronic mandate if this latter service is offered by a credit institution
- A no-questions-asked, fast and simple refund procedure is available within eight weeks of the debit date for authorised transactions and within 13 months for unauthorised transactions

6.4 The launch date

- The introduction of the SEPA Core Direct Debit Scheme requires a uniform EU-wide legal framework for payments.

- The launch of the scheme is therefore contingent upon adoption of the EU Payment Services Directive (PSD) into the national law of member states.

- The PSD defines, for example, common rules on the authorisation of payments, the return of payments and customers' rights to contest direct debits.

- To bring the necessary level of planning certainty to all stakeholders, the general SEPA-wide launch date for the SEPA Core Direct Debit Scheme has been set in principle by the EPC for November 2009.

- This launch date coincides with the deadline for all EU member states to have adopted the Payment Services Directive into national law.

The SEPA Core Direct Debit Scheme creates, for the first time, a payment instrument that can be used for both national and cross-border collections throughout the SEPA area.

7.

7.1 Differences from the SEPA Core Direct Debit Scheme

The SEPA Business to Business Direct Debit Scheme (B2B) will be the basis for the development of products catering for business customers who wish to make payments by direct debit as part of their business transactions.

The most important differences between the SEPA Core Direct Debit Scheme and the SEPA Business to Business Direct Debit Scheme are:

- In the B2B Scheme, the debtor is not entitled to obtain a refund of an authorised transaction; this provides certainty of payment for the creditor
- The B2B Scheme requires debtor banks to ensure that the collection is autho-rised by checking the collection against mandate information; debtor banks and debtors are required to agree on the verification to be performed for each direct debit
- A debtor bank cannot offer the scheme to a debtor (payer) who is a "consumer" under the law of the country where that debtor bank is providing the payment service; essentially, therefore, the B2B Scheme is available only to the business community, not private individuals
- Responding to the specific needs of the business community, the B2B Scheme offers a significantly shorter timeline for presenting direct debits and reduces the return period

The SEPA Business to Business Direct Debit Scheme Rulebook and the accompanying Implementation Guidelines approved by the EPC are the definitive sources of information regarding the rules and obligations of the scheme. The latest version of the SEPA Business to Business Direct Debit Scheme Rulebook and Implementation Guidelines can be obtained at www.europeanpaymentscouncil.eu.

7.2 Advantages of the B2B scheme

Advantages for creditors

- A simple and cost-efficient way to collect funds
- The possibility to define the exact date of collection
- The certainty of payment completion within a short and pre-determined time-cycle
- The opportunity to optimise cash-flow and treasury management
- Straightforward reconciliation of payments received
- The ability to automate exception handling such as returned and rejected collections and reversals
- A fast collection procedure satisfies the creditor's need for a payment instrument with a short credit risk period, delivered in combination with early finality of funds received
- Reduction of administrative costs and enhancement of security through the use of electronic mandates
- The opportunity to collect funds from debtors using a single, trusted payment instrument regardless of their location in Europe

Advantages for debtors

- A fast and simple means of paying bills, reducing the incidence of late payments and the consequences thereof
- Allows the debtor to do business with a creditor requiring the use of the B2B Scheme for making payments in an efficient way
- The debtor is easily reachable for SEPA-wide business offerings, because the B2B Scheme is accepted as a single, trusted payment service by all creditors in SEPA
- The debtor has the security of knowing that the debtor bank will verify B2B Scheme transactions before debiting the debtor's account

7.3 The launch date

The launch of the SEPA Business to Business Direct Debit Scheme has been set in principle by the EPC for November 2009.

8.

8.1 Need for a common data format

A common data format that is used by all the parties in a payment transaction is essential for cost-efficient handling of billions of payments. Today, dozens of different data formats are in place to process payments across different national and European clearing systems in the European Union.

The realisation of SEPA therefore requires agreement on a common set of data to be exchanged via 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 common data sets, respectively.

8.2 ISO 20022 XML message standards

It is important to note that the SEPA Data Formats do not constitute an exclusive European standard. Rather, the SEPA Data Formats are based on the global ISO 20022 XML message standards.

These formats are binding for the exchange of SEPA payments between banks. It is recommended that business customers use the SEPA Data Formats for initiating payments. However, banks may continue to accept other formats from customers for SEPA payments.

8.3 ISO 20022

ISO, the International Organisation for Standardisation, is the world's developer of global standards. ISO combines the expertise of representatives from all sectors. ISO therefore provides any stakeholder group the opportunity to participate in the process of standard setting.

ISO has also worked on modelling financial messages. This is set out in ISO Standard 20022 (see www.iso20022.org). This standard provides a methodology for defining business processes and the related data elements. In the ISO process, business requirements are defined for all global markets. Different markets have different data needs. This means that each community may need to define its own version within the global standard, specific to its own situation. In this respect, the ISO messages have been adjusted to meet the SEPA requirements.

The role of EPC in defining the SEPA Data Formats therefore consists in identifying, within the global standard, all necessary data elements for making SEPA payments as defined in the SEPA Rulebooks. These "core" data elements are indicated by yellow shading in the SEPA Implementation Guidelines released by the EPC with respect to the SEPA Credit Transfer Scheme and the SEPA Direct Debit Schemes.

To allow communities of banks participating in the SEPA Schemes to provide additional optional services (AOS) based on the schemes the EPC has also identified data elements within the global standard that can be used for this purpose[4]. These data elements are indicated by white shading in the Implementation Guidelines.

The SEPA Data Formats are therefore a valid subset of the global ISO Standard 20022.

[4] The SEPA Credit Transfer Scheme Rulebook and the SEPA Direct Debit Scheme Rulebooks released by EPC provide detailed information on Additional Optional Services. The Rulebooks are available at www.europeanpaymentscouncil.eu.

8.4 Extensible Markup Language (XML)

The Extensible Markup Language (XML) syntax is recommended by ISO. The primary purpose of XML is to facilitate the sharing of structured data across different information systems such as the Internet. The XML standard is maintained by the World Wide Web Consortium. It is a fee-free open standard.

With the launch of the SEPA Credit Transfer in January 2008, EU banks are the first in the world to deploy a new format based on global standards – the ISO 20022 XML message standards – for making mass euro payments.

This innovation is likely to have an impact far beyond Europe, as corporates and banks in Asia and in the Americas have already started to realise the global implications of 31 countries moving jointly towards this international standard.

For further information, refer to the Implementation Guidelines for the SEPA Credit Transfer Scheme and the SEPA Direct Debit Schemes available at www.europeanpaymentscouncil.eu.

The SEPA Data Formats are a universally compatible standard for the exchange of financial industry messages. The European banking industry is leading the way in terms of innovation in global payments.

9.

9.1 The SEPA Cards Framework (SCF)

The declared aim of creating a SEPA for cards is to make such payments significantly simpler for card-holders and merchants. There will be benefits above all for card-holders as well as for retailers and service providers in their capacity as points of acceptance.

European consumers should benefit from a wider acceptance of their cards within SEPA and more choice of cards products than before. European merchants should benefit from a more competitive acquiring market, and be able to choose which card schemes to accept and from which acquirer (i.e. a bank which services card-accepting merchants).

The EPC decided **not** to develop a new common SEPA card scheme with a view to replace or compete with existing card schemes, because it believes that competition between schemes (as well as between card issuers, acquirers, processors and suppliers) will benefit consumers and the European economy as a whole.

Instead, the EPC established the SEPA Cards Framework (SCF)[5]. The SCF is a policy document which states how actors in the cards market such as card schemes, card-issuing banks, banks servicing card-accepting merchants and other service providers must adapt their current operations to comply with the SEPA vision for card payments in euro. While it is the choice of any actor in the cards market whether to become SCF-compliant or not, the EPC's members have pledged to conform to the conditions of the SCF in their capacities as issuers and acquirers.

[5] The SEPA Cards Framework and the document "Questions and Answers clarifying key aspects of the SEPA Cards Framework" are available at www.europeanpaymentscouncil.eu.

A majority of payment cards already have international interoperability with wide ATM and point-of-sale acceptance, for example, through Visa (and Electron/V-Pay), MasterCard (and Maestro), or through participation in new initiatives such as the Euro Al-liance of Payment Schemes (EAPS). However, payment cards from SEPA countries will lack this functionality if they are not branded or co-branded or integrated in a wide-acceptance card scheme initiative.

The SCF is designed to enhance levels of inter-operability within SEPA by defining common standards, improving transparency and removing other barriers to the development of a SEPA for cards.

The Framework provides the industry with a means of achieving SEPA for cards through self-regulation. It provides a series of commitments to be entered into voluntarily by card issuers, acquirers or equivalent, and schemes. These commitments cover areas including interoperability and technical standards.

Card payments have developed because of competition over a forty-year period into the leading way for consumers to make payments. This has led to innovation including online authorisation at point of sale, electronic commerce, Chip and PIN, and now prepaid, contactless and mobile payments. The SCF is aimed at making it possible for competition between all participants (schemes, issuers, acquirers, processors and suppliers) to flourish, and it is for this reason that it is an enabler. The market will develop in ways that consumers and merchants want it to.

This does not mean, however, that the SCF guarantees that all cards will be accepted by all merchants. It should be recognised that the acceptance of a card at any given terminal is ultimately dependent on the decision of a merchant to accept that particular card. However, the SCF removes many of the barriers so that acceptance and coverage meet the needs of consumers and retailers.

9.2 The SEPA Cards Standardisation Programme

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.

In cooperation with other stakeholders, EPC is carrying out a cards standardisation programme designed to remove any technical obstacles preventing a consistent customer experience throughout the SEPA cards market.

Achieving greater standardisation in the European card world is a necessity going forward, yet a formidable challenge. When undertaking this task, a number of — at times conflicting dimensions — have to be reconciled:

- The often excellent service experienced by both cardholders and merchants should not be disrupted. Notably, as far as cardholders are concerned, greater standardisation must remain almost transparent to them.
- Retailers have significantly invested in and deployed terminal equipment and related software applications. Of course the depreciation deadlines of this equipment up to now reflect more individual decisions than any grand European vision. In addition, in a number of countries, retailers have just completed a migration to EMV (Europay MasterCard Visa programme to implement CHIP & PIN security for card transactions).
- Retailers are not all the same. The different requirements of their multiple professions and sectors result in specificities which must be translated into the products they deploy.
- Manufacturers appreciate a measure of standardisation, yet also want to be able to differentiate their wares from each other, and take advantage of innovation in order to compete in the marketplace.
- Policy-makers and regulators harbour significant expectations from standardisation: economies of scale achieved due to standard equipment certified and deployable at European level should decrease costs and make payments with cards an even more attractive proposition.
- Finally, Europe is not an island. Standards for cards are not only decided in Europe, and stakeholders in Europe are concerned about the compatibility of the solutions they propose and/or implement beyond Europe's borders.

The SEPA Cards Standardisation Programme is an attempt to reconcile these challenges, by offering to all stakeholders a pragmatic path:

- Development of a set of business and functional core requirements ("EPC standards") across the cards value chain including principles and a framework for certification with the objective of first achieving mutual recognition of certificates, and at a later stage single Europe-wide certification.
- It will be up to each market participant to decide whether to make use of these standards, yet those who do will be able - as a result of a self-assessment process - to declare themselves as being SCF-compliant.
- These EPC standards will be the foundation on which market participants will be able to develop implementation specifications to meet the specific needs of the various market segments, and allow for competition. It will be the responsibility of each provider to ensure that these implementation specifications are effectively compatible with the standards referred to above.

In December 2008, the EPC Plenary adopted the latest version of the SEPA Cards Standardisation Volume[6]. The Volume defines the functional and the security requirements as well as the target evaluation methodology and certification architecture that are recommended for adoption by players throughout the card payment value chain.

[6] The SEPA Cards Standardisation Volume is available at www.europeanpaymentscouncil.eu.

SEPA CASH FRAMEWORK (SECA)

10.

The introduction of euro bank notes and coins in January 2002 has been a successful operation and one step towards increased European financial integration. Consumers continue to have a great affection for cash because it is real, instantaneous and apparently free. Few customers (i.e. consumers and retailers), however, are aware of the high costs of cash to society considering the following aspects:

- Complex back office processes necessary to manufacture, distribute and recycle cash in a secure manner
- Use of cash by criminal elements
- Consequences of unofficial, cash-based economic activities

It is estimated that today 7 to 8 out of 10 face-to-face transactions per annum are made with cash in the EU. The total cost per year to the EU economies has been estimated at between 45 billion and 70 billion euro. In addition, cash in circulation continues to grow rapidly at between 7 to 10 per cent annually.

The current landscape for the distribution of cash is characterised by multiple infrastructures each organised at national level and based on different business models. This lack of harmonisation, common approach and best practice increases the cost of cash processing further and creates many inefficiencies across the euro area. For retail cash, banks, merchants, public authorities and transport organisations are all finding it difficult to handle any additional volume of cash.

Given this background, the EPC believes that actions by all stakeholders within the euro area could contribute to reduce the high cost of processing and handling cash. To this end, it has been agreed to create the Single Euro Cash Area (SECA).

The plans for the SECA have been developed in close consultation with the Eurosystem Bank Note Committee, banks and other key players. The objective of SECA is to create, with the Eurosystem, a level playing field whereby the basic cash functions performed by each of the National Central Banks (NCBs) in the euro area are interchangeable, e.g. there is a common level of service and common processes are followed by all euro area NCBs.

SECA seeks to ensure the implementation of harmonised costs of distribution within the SEPA area. The goal is to create a common infrastructure for cash in all euro countries. The key design principles of SECA were defined in the “Single Euro Cash Area (SECA) Framework”[9] published by the EPC and are summarised as follows:

- Consistent customer experience at all euro area ATMs
- Consistent quality and features of notes and coins
- Homogenous wholesale and retail cash handling standards and processes in all national markets
- Improved services to merchants and increased competition among cash-in-transit companies (CIT)
- Removal of legal barriers and harmonisation of NCB conditions
- Increased efficiency of the cash supply chain and reduced number of steps in the chain
- More competitiveness through the use of alternative cash distribution models
- Access to any NCB in any national market and a cash supply network that ensures optimal reach
- Effective and efficient cash distribution management information systems for NCBs, banks and cash-in-transit providers
- Harmonised NCB responsibilities and service level agreements as regards debiting or crediting, deposits and withdrawals, opening hours, authenticity and quality control; common rules for NCB bank fees and charges
- Stability of services and operational conditions to enable long term investment

In addition, the EPC developed recommendations with a view to creating a common euro area-wide infrastructure for wholesale cash[8] based on the following principles:

- The development of common security requirements for euro note transportation, including standards for bank note neutralisation systems.
- The identification of best practice standards for coin and bank note packaging including bundle types (content, number of coins/bank notes, single or multiple denomination countries, packaging and procedures for returning counterfeits and stained bank notes). These standards should also include harmonisation of processes across national markets and bank-note standard packages compatible with cash degradation systems.

SECA will support one major goal of the SEPA initiative: encouraging consumers and merchants to migrate from cash to payment cards and other electronic payment instruments.

[7] The document “Single Euro Cash Area (SECA) Framework” is available at www.europeanpaymentscouncil.eu.
[8] The document “Improving Eurozone Cash Processing Harmonisation and Efficiency within SEPA” is available at www.europeanpaymentscouncil.eu.

SEPA INFRASTRUCTURE

11.

The systems established to carry out clearing and settlement of payment transactions between payments services providers are referred to as infrastructures or clearing and settlement mechanisms (CSMs). These infrastructures can be banks as well as separate business entities (which may or may not be owned by banks). Traditional payment clearing (exchange of messages) and settlement (exchange of funds) systems are governed by the respective national payment conventions.

The main features of an infrastructure are:

- The core operational service provided to enable authorisation, clearing and settlement of a payment transaction
- The technology delivery system and network entities which support a payment scheme
- The technology platform on which the clearing and settlement process operates
- The customer support operations which assist banks, corporates, merchants and public administrations
- The development and maintenance of technology applications, IT platforms and network management
- The functions include clearing and settlement systems, card transaction switches and networks, merchant accounting and back-end processes as operated by banks, interbank companies and commercial processors and central banks (settlement)

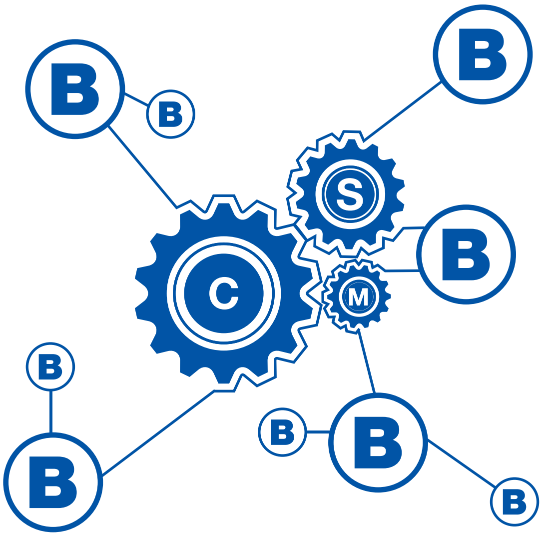
The most important criterion of a SEPA infrastructure is the reachability of all scheme participants (banks): Where a payment from bank A located anywhere in SEPA to bank B located anywhere in SEPA is requested, bank A has to be able to reach bank B bilaterally or via an infrastructure to ensure that the payment is executed on a timely basis.

SEPA, therefore, requires infrastructures that support both the SEPA schemes and standards and provide maximum reachability either by operating as a PE-ACH (see below) or based on interoperability between infrastructures.

Existing national structures often have the commercial aspects of the payment scheme entangled within the rules for the operational company that delivers interbank payment processing. In SEPA, however, services offered by clearing systems based on the SEPA schemes are governed by market forces and are outside the scope of the EPC.

In the new SEPA environment the market can select various optional CSM models, all of which must be SEPA scheme compliant, namely:

- **PE-ACH**: An Automated Clearing House (ACH) that is or is part of a Pan-European ACH, a SEPA-wide, country-neutral clearing organisation, providing reach to all banks participating in the SEPA Schemes, and which banks from anywhere within SEPA can select to use on the basis of price and service. The main characteristics of a PE-ACH are:



A CSM enables the exchange of funds and messages between two banks executing a payment transaction.

  - Country neutral in terms of access, governance, rules
  - Guaranteed open and transparent access criteria for all banks in SEPA
  - SEPA-wide reachability of all SEPA banks, either directly or indirectly
  - Full interoperability and clearing and settlement services for both SEPA Credit Transfer and SEPA Direct Debit
  - Clear statement of services, no barriers to entry
  - Open governance structure
  - Robust operational rules for risk management, clearing, settlement, execution, security

- **SEPA Scheme-Compliant ACH**: An ACH capable of processing SEPA Scheme transactions within a defined market and which may or may not (yet) be in transition to a PE-ACH.

- **Multilateral CSM**: A decentralised form of multilateral clearing and settlement (not an ACH structure) capable of processing SEPA Scheme transactions within a defined market.

- **Bilateral clearing and settlement**: A decentralised form of bilateral clearing or settlement (for example, correspondent banking).

- **Intra-Bank/Intra-Group clearing and settlement**: An intra-bank and/or intra-group clearing and settlement arrangement, typically where both the originator/creditor and beneficiary/debtor have their accounts within the same bank or group.

For more information on SEPA infrastructures please refer to the document “SEPA CSM Market Practices” at www.europeanpaymentscouncil.eu.

PAYMENT SERVICES DIRECTIVE (PSD)

12.

12.1 Scope of the PSD

The Payments Services Directive (PSD), also known as the New Legal Framework for Payments, was published in the Official Journal of the European Union in December 2007. All thirty countries of the European Economic Area (EEA) must have implemented the requirements of the PSD into their national legislation by 1 November 2009.

It is important to note that the PSD is not a "SEPA Directive". Rather, the very broad and ambitious scope of the PSD makes it the most significant and comprehensive piece of EU financial services legislation in relation to the payments market ever seen.

Whereas the PSD was initially intended to provide the required legal harmonisation for the realisation of SEPA, the European Commission eventually opted instead for a more far-reaching law that would standardise information requirements and rights and obligations of payments services providers and users. The PSD's objectives range from regulatory capture of non-bank payments services providers to enhancing consumer protection, transparency, competition, efficiency and modernisation of payment systems and services, integration and consolidation of the payments markets and enhanced innovation.

Divided into four broad sections (so-called titles), the PSD covers scope and definitions (Title I), the regulation of payment institutions – that is non-bank payments services providers – (Title II), conditions for transparency and information regarding payments services (Title III) and rights and obligations of users and provi-ders (Title IV).

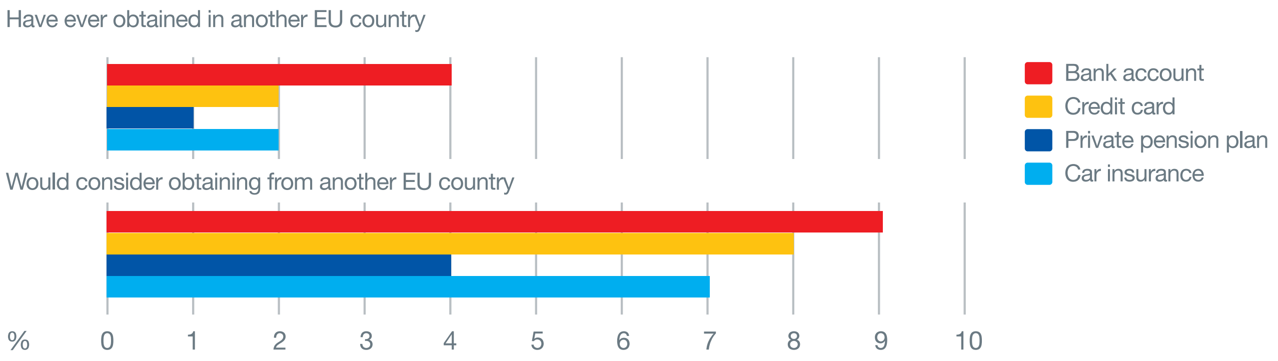
The Directive introduces a new licensing regime to encourage non-banks to enter the payments market; sets common standards for terms and conditions with a focus on high levels of transparency; establishes maximum execution times for payments in euro and other EU currencies; introduces a shift in liability between providers and customers in the interest of consumer protection; and looks to encourage the adoption of more efficient payment types.

It is also important to note that the geographical scope of the PSD is different from the scope of SEPA. Whereas SEPA covers euro-denominated payments in 31 countries (EEA plus Switzerland), the PSD applies to all EU member state currency denominated payments in the 30 EEA countries.

While the PSD brings positive change for payments services users in terms of enhanced transparency and streamlined operational rules around payments services execution, European financial institutions will face many adjustments to systems and services in order to ensure they are PSD-compliant in time for the 2009 deadline. To facilitate the implementation of necessary changes due to the introduction of the PSD for financial institutions it is also necessary that national governments make available information on transposition legislation as early as possible. Certainty on the legal requirements in turn will further support SEPA implementation by banks.

The PSD will impact all current and future providers and users of payments services within the EU and beyond as well as market infrastructures, card schemes, software vendors and other ancillary service providers.

CROSS-BORDER TRADE IN FINANCIAL SERVICES



Source: European Commission

The PSD establishes a common legal framework for payments in the EEA.

12.2 The PSD and SEPA

- As regards the realisation of SEPA, the PSD is relevant in particular as it sets uniform rules on, for example, the authorisation of payments, the return of payments and refund rights. These rules not only create more legal certainty and acceptance in the customer-to-bank relationship, because they apply everywhere in SEPA, but also provide the indispensable uniform legal basis required for the EU-wide launch of the SEPA Direct Debit.

- Also, the PSD defines the primacy of the unique account identifier (International Bank Number Identifier – IBAN) to ensure enhanced levels of straight-through-processing (STP), limiting banks' and other payments services providers' liability in case customers have provided a wrong unique identifier.

- The PSD was adopted by European law makers two years later than originally planned. As a result, its transposition by member states into national law will be completed in November 2009 instead of January 2008 as first envisaged. In consequence, it will be only possible to make the SEPA Direct Debit available EU-wide as of 1 November 2009[9].

- The PSD legal text can be found at:

http://eurlex.europa.eu/LexUriServ/site/en/oj/2007/l_319/l_31920071205en00010036.pdf

[9] The Payment Services Directive – An essential guide for financial institutions. Ruth Wandhöfer (2008).

13.

13.1 A strategic opportunity

Individual banks and other payment industry players across SEPA will be responsible for implementing SEPA. It is vitally important that they fully grasp the scale of the opportunity. All banks dealing in retail euro payments will be impacted whether inside the euro zone or not.

It is important that banks do not see SEPA as merely a compliance project but as a business opportunity.

Banks need to understand the detail of SEPA and the PSD, assess the impact on their revenues, review the impact of competitors' offers and analyse their strengths and weaknesses in the future payments market. There may also be benefits for their future alliance and merger planning.

With SEPA, change will bring many strategic opportunities for banks to innovate, to develop new products, to replace ageing systems and to improve operational efficiencies. Competition amongst banks is likely to increase. The new SEPA Schemes define core features and best practices and it is up to the payments services provider community to build products and services ready for the market.

Larger banks can offer high volume payments processing products. Smaller banks can compete with larger ones, because one home account can serve customers in multiple countries (private clients, students, pensioners etc). Large and smaller banks can also specialise and develop and deliver products that will service niche sectors.

Acquirers, e.g. banks and other providers servicing cards-accepting retailers, can offer merchants much improved, pan-European acquiring services for all payment cards. Common in-house platforms will enable large processors to develop new services at lower cost.

Payment sector software suppliers will innovate and develop new interfaces and converters to enable SEPA migration. In addition, the costs of products and services will decline, as vendors develop common EU designs rather than national market-specific ones, reducing banks' operational costs.

All banks will have to assess the impact of SEPA and the PSD on their revenue streams and re-evaluate their pricing strategies in the new market context (note: the EPC does not have a position on appropriate revenue models). Increased transparency will reduce cross subsidisation and as a result, payment product prices can be more closely linked to cost. Transparency will enable simpler structures, improve customer clarity and will meet the requirements of regulators and corporate and consumer groups.

Integrated SEPA payment strategies underpinned by the introduction of new innovative market offerings and linked to the benefits of improved efficiencies will be essential requirements if all banks are to compete.

SEPA INTEGRATED PAYMENTS STRATEGY

When building a SEPA strategy, it is suggested that banks consider the following steps:

- Definition of target markets by geography and service within SEPA
- Segmentation and definition of target customers and their needs
- Identification of mass market, niche and specialist opportunities
- Review schemes and brand strategies and their interbank implications
- Development of new, SEPA-enhanced value propositions and offers
- Design of new SEPA products and services
- Review of product manufacturing, distribution strategies and options for existing and new customers
- Development of go-to-market strategies and product roll out

13.2 Building a business case

Banks need to understand the impact of the new cost drivers and assess the current position in terms of their internal processes, IT platforms and delivery channels.

The technology investments required for SEPA also need careful assessment and planning. Banks will have to modify existing or develop new IT platforms and delivery channels. Many will use the SEPA development to replace ageing platforms and to refresh systems.

Banks should also assess the impact on card schemes in which they participate and the resulting impact on their clearing and settlement mechanisms.

Decisions need to be made on development options, whether to build in house, purchase software or to outsource. SEPA also provides an opportunity to re-evaluate partnerships, to discuss the impact of SEPA with suppliers, agree projects and build work plans.

The possibility of centralising systems should be assessed and new alternative sourcing options (both interbank networks/processors and commercial providers) reviewed in the light of new products and the increased competition and consolidation in the supplier and processor sector.

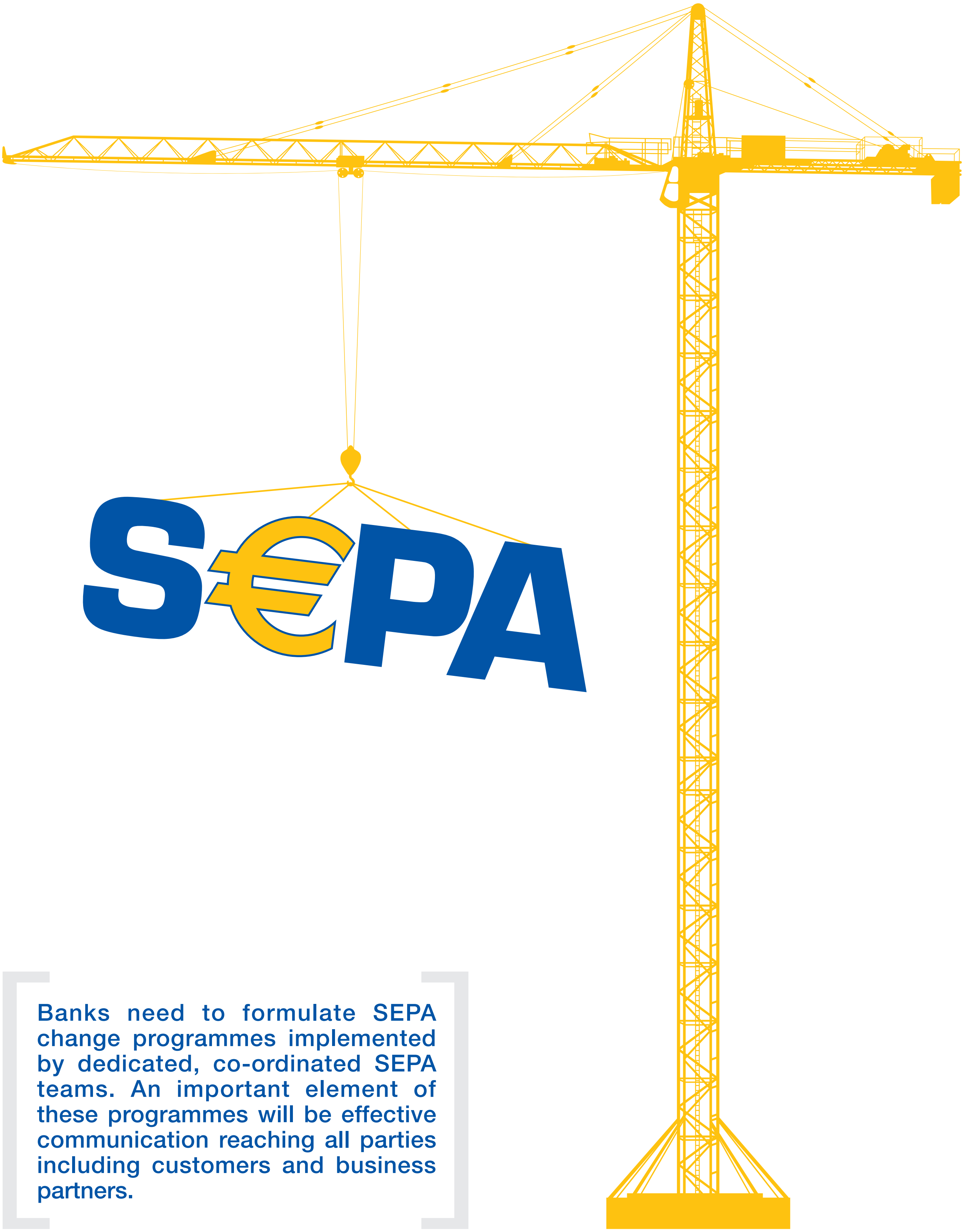
Operating models will need to be redefined to benefit from efficiency improvements that common standards and processes deliver. The new SEPA schemes and frameworks have been designed to enable reductions in internal and external bank costs.

The new competitive infrastructure market should drive down bank costs for clearing and settlement. The mix of payment instruments will also change with a decline in the use of paper-based transactions. Interbank infrastructures will rationalise, leading to fewer and less complex interface requirements. Clearing and settlement mechanisms could become more efficient with the introduction of SEPA schemes.

Multi-country banks will realise substantial cost efficiencies as they replace local payment instruments with a pan-European set and reduce their links to multiple clearing platforms. Specialist payments processing banks will see similar benefits. Mono-country banks may be able to increase efficiency in their back office operations and many will seek the benefits of scale and volume processing by outsourcing their production and operations functions.

Efficiences will help banks to mitigate the costs of the SEPA infrastructure changes and enable them to build a SEPA business case.

The banking industry has no illusions. Building the SEPA business case will be complex and difficult for all banks. A ten-year vision is needed, for in the short-term SEPA transition costs may exceed revenues. However, banks that are pro-active, listen to their customers and fully understand the impact of the SEPA change can leverage the SEPA market opportunity and build a credible long term business case.



Banks need to formulate SEPA change programmes implemented by dedicated, co-ordinated SEPA teams. An important element of these programmes will be effective communication reaching all parties including customers and business partners.

BENEFITS FOR CUSTOMERS

14.

14.1 Benefits for consumers

SEPA will impact all those who make electronic euro transactions and will change the service that underpins the way they make and receive payments. Research by Europe's banking associations shows that current banking services meet a very high proportion of customers' needs within their domestic markets. However, consumer requirements and payment patterns are changing. In all countries citizens want improved services and expect payments to be processed speedily and in a standardised manner within their home country and when dealing with other European markets.

In SEPA consumers enjoy many new payment features. They can rely on one bank account and one payment card to make payments across 31 countries.

When spending in other countries citizens can feel more secure, carry less cash and be less reliant on local ATMs. Their home payment card can be accepted for payments in any SEPA country and they will receive full details of any merchant currency conversion charges across SEPA. The processes, rules and account codes for sending money within SEPA to family and friends or retailers will be simplified with standardised money transfers and no deductions from the transferred amount.

Direct debits will be harmonised within SEPA thus improving the service for regular bills payment. In addition, salary payments and credits to the current account will have predictable posting dates. Finally, charges for payments processing will be fully disclosed and a new and common legal framework applied for refunds, disputes and complaints.

Under SEPA, mobile European citizens including workers, students, holiday home owners or retirees living abroad will see a substantial improvement in their payments services, no matter where they work or study. For those who so choose, they should be able to rely on one home account and one payment card for all payments throughout SEPA.

14.2 Benefits for small and medium-sized merchants

SEPA will have an important impact on small and medium-sized European merchants' approach to card acceptance and the services they receive from their banks. Those that have a high tourist or adjacent border spend will see significant change and improvement as will those that currently have to accept high volumes of cash.

With the introduction of SEPA, many of the national practices that are specific to each domestic market will become more consistent. Card schemes will move to more standardised approaches.

The introduction of SEPA will incentivise consumers and merchants to migrate to payment cards and electronic payments. The increase of electronic transactions will simplify back office processes and reduce the costs and risks of handling cash.

- Card acceptance will be extended, enabling domestic payment brands to be supported by most terminals across the EU. In addition, all SEPA-compliant cards must be chip based (e.g. the magnetic stripe will not be SEPA compliant) and will be authenticated using PIN rather than signature, improving POS throughput and significantly reducing cardholder fraud. Terminal costs are expected to decline as a common, lower cost SEPA terminal application is developed and implemented.

- Also, the Payments Services Directive will provide uniform rules for exception handling and consumer redress. Finally, by moving to common standards, SEPA will open up the market for acquiring services leading to increased choice of providers and the development of many new products and services.

14.3 Benefits for large merchants

- Because of today's fragmented payments infrastructure, Europe's largest merchants face significant problems in developing common internal systems and processes for their operations in European markets. Current EftPos acquiring and acceptance processes are very specific to each national market with the result that large merchants incur high costs in developing and operating multi-country infrastructures. Many large retail chains have internal systems that are specific to each country and, in addition, cannot benefit from economies of scale and the pooling of transactions.

All of the SEPA benefits delivered to the small and medium merchant will also apply to the large top 100 merchants in each SEPA country who often process over 50 per cent of each country's card payment transactions.

- Large retailers will see significant benefits through lower processing costs as a result of a common euro area-wide cash repositioning strategy. Similarly, common POS processes for card acceptance will greatly simplify staff training and reduce the potential for errors. The consistent legal framework for disputes and exception handling should also facilitate savings. In addition, merchants will see significant savings with regard to terminal maintenance and POS processes as a result of a single SEPA software application, the removal of multiple terminals and the introduction of common terminal to host standards.

- Additional benefits are: the use of a single internal ePOS/EftPos platform which will support payments processing for all countries and enable common systems for features such as mobile top-up (MTU), dynamic currency conversion (DCC) and bills payment (BP). This will eliminate multiple country specific systems. Cross-border business expansion will no longer be constrained. Multiple acquirer banking relationships can be reduced, because SEPA will enable combined payment card acquiring for euro transactions. Treasury operations can be streamlined and back office processes simplified as a result of common clearing and settlement for all countries.

- Finally, the number of banks offering acquiring services will increase and with more choice new products and services will materialise. Similarly, separation of card schemes from processing entities will create many new specialised processors previously combined with interbank and scheme operations. This should lead to the opening up of the processing market, increased consolidation and reduced transaction fees through economies of scale.

14.4 Benefits for businesses

Large multi-national corporates have long been seeking improved and lower cost solutions for processing payments within their domestic and European markets. SEPA delivers these solutions.

➡ These companies are self-sufficient and work closely with their banks to build highly efficient payments processes in their domestic markets; however, many want further improvements: single reach and increased levels of standardisation, automation and centralisation allowing for rationalisation which in turn result in cost reductions. The SEPA Schemes recognise that individual banks and communities of banks will provide complementary services based on the schemes in order to meet further specific customer needs.

➡ The existence of a multitude of different national payment systems and formats posed a significant obstacle to the aspirations of companies seeking opportunities in foreign markets. Availability of a standardised payment infrastructure in SEPA opens up new possibilities to expand business beyond national borders.

➡ Companies maintaining accounts in other European countries to handle local payments will be able to centralise such accounts and the associated liquidity. Current differences between domestic and cross-border payments in SEPA will be eliminated.

➡ The introduction of the ISO 20022 XML message standards – the SEPA Data Format – allows for rationalisation, which in turn will significantly reduce the costs associated today with the maintenance of the different national payment formats and related IT-standards, including system administration.

➯ The SEPA Data Format also streamlines account reconciliation through the adoption of new standards. These standards include, for example, a special originator reference and a standard length of the remittance information. All parties in the payment processing chain are obliged to carry this remittance information unaltered from customer (originator) to customer (beneficiary). The SEPA Format is being updated annually according to a predictable release schedule to reflect customer needs.

➯ Uniform settlement periods and exception processes for all European countries will significantly reduce current complexities. The EU Payment Services Directive (PSD), to be implemented into national law of EU member states by November 2009, will further improve legal certainty and predictability in payments.

➯ Payment factories are companies delivering payment-related services on an industrialised scale to customers such as corporate businesses, banks and clearing houses, among others. The realisation of an integrated euro payments market will boost the trend towards outsourcing payments. SEPA allows the acquisition of significant additional volumes by payment factories which in turn will generate scale and scope advantages for their customers.

➯ The number of banking relationships for effecting and receiving payments can be consolidated. Banks will offer extended reach and support SEPA-wide operations, reducing administration costs and improving efficiency.

For more information on how to get your company ready for SEPA, please refer to the EPC publication "SEPA for Business" available at www.europeanpaymentscouncil.eu.

14.5 Benefits for public administrations

➯ To learn about the benefits to be reaped from SEPA implementation for public administrations, refer to chapter 16 "SEPA and beyond: the role of the public sector".

CREATING SEPA READINESS ON THE CUSTOMER SIDE

15.

15.1 Where are they now?

Users of payments services including corporates, merchants, SMEs, public administrations and consumers have the most important role to play: SEPA will only succeed with their co-operation and commitment. At end 2008, SEPA readiness on the customer side, however, remains low.

According to the SEPA Survey 2008[10], 84 per cent of corporates and public sector organisations are familiar with the SEPA initiative, yet 79 percent do not have a SEPA team in place and 80 percent do not have a SEPA strategy. Therefore, the study concludes, even though familiarity with SEPA is high, true market awareness of the impact, implications and potential benefits of SEPA is low and, consequently, market readiness for SEPA is also low.

Only 15 per cent of the survey participants had already started to implement SEPA solutions. Up to 75 per cent of respondents indicated that they intend to implement SEPA solutions within the next two years; the majority expects to continue to use legacy credit transfers until the year 2013.

- *Familiarity* in this study is identified as having heard of through to having a good knowledge of the SEPA project, e.g. familiarity is seen as the first phase towards SEPA awareness and readiness.
- *Awareness* of SEPA is defined as being well informed about SEPA and acknowledging the impact SEPA has on payment processes, as well as being able to quantify and/or identify the potential costs and benefits that come with SEPA.
- *Readiness* for SEPA is defined as having started or completed concrete actions in order to comply with the changing payments landscape. Ultimately, a corporate is only fully SEPA ready when all its current euro electronic payments are SEPA payments.

[10] SEPA Survey 2008. A Study on the Awareness of and Readiness for SEPA amongst Corporates and Public Organisations in the Euro Area. Deloitte and Atos Consulting (October 2008).

The authors of the SEPA Survey 2008 found that SEPA is not a prime topic of interest among corporate leaders, which seems to be caused by lack of a sense of urgency. Reasons given most commonly for this lack of SEPA urgency are

- Relatively low priority given to SEPA in comparison to other internal projects (27 per cent)
- Lack of a business case (16 per cent)
- Lack of an acceptable banking solution (74 per cent)

In addition, the following reasons for a rather passive attitude on the user side towards SEPA are put forth:

- The current situation in payments is better than what SEPA promises or is considered good enough
- The current SEPA portfolio is incomplete – implementation of the Payment Services Directive (PSD) and of the SEPA Direct Debit are planned for November 2009
- Payments as an organisational process within a corporate are always considered critical but hardly ever considered core business; in other words, without a clear incentive, other projects will always have priority
- There are currently no direct consequences for companies that do not act on SEPA (failure to prepare does not involve breach of regulation)

15.2 Create a dedicated SEPA team

Ways will have to be found to create SEPA awareness and a sense of urgency on the customer side. Banks will continue to play a major role in communicating the SEPA concept to their customers based on attractive product offerings. The political drivers of the SEPA initiative have the opportunity to facilitate the change-over for users (see chapter "How to make SEPA a Success"). Public administrations should act as catalysts for the adoption of SEPA payment instruments (see chapter "SEPA and beyond: The Role of the Public Sector"). Technology providers, e.g. software vendors, processors and consultancies should support the development of new cost-efficient products and services that will facilitate rapid and low risk conversion and migration to SEPA for the users of payments services.

Customers themselves will have to become active. In a very first step, it is recommended that individual companies and public administrations set up a dedicated SEPA team.

According to the SEPA Survey 2008, 60 per cent of respondents acknowledge that SEPA might offer major business opportunities. However, 48 per cent of respondents are unable to quantify the expected financial benefits of SEPA, and consequently they are unable (or do not see the need) to build a SEPA business case. Also, 65 per cent of participants in the survey acknowledge that SEPA will have a major impact on their daily payment processes. However, 42 per cent of respondents are unable to quantify the investment necessary to implement SEPA solutions, e.g. to adapt existing processes and systems (for more information on the impact of SEPA implementation on internal processes please refer to the EPC publications "SEPA for Business" and "SEPA for the Public Sector" available at www.europeanpaymentscouncil.eu).

The establishment of a dedicated SEPA team will enable businesses and government agencies to identify the benefits as well as the costs associated with SEPA implementation and to assess the impact on internal systems. Clarity on these issues will in turn facilitate the procurement of the most suitable SEPA solutions offered by banks and technology providers. Eventually, these steps should result in implementation projects on the level of individual businesses and government entities.

The EPC also encourages users to actively take part in the evolution of SEPA schemes and frameworks.

All stakeholders are encouraged to liaise with SEPA Stakeholder Forums established by the banking communities on national level. Any organisation acting on European level to represent the interests of specific user communities is invited to join the EPC Customer Stakeholders Forum or the EPC Stakeholders Forum for Cards. Last but not least, users have the opportunity to take part in any public consultation carried out by EPC (for information on ongoing consultations please visit www.europeanpaymentscouncil.eu).

Get started – now.

SEPA AND BEYOND:
THE ROLE OF THE PUBLIC SECTOR

16.

Public administrations will benefit from the implementation of innovative SEPA payment products in the same way as business enterprises (see previous chapter). The innovation of payment processes, e.g. migrating government payments away from paper-based and cash processes, is seen as a vital component of creating modern infrastructures designed to reduce expenses, to establish efficient operational structures and, above all, to further improve public services.

Yet, as regards the public sector, the political drivers of the SEPA project envisage SEPA not just as a means to modernising payment systems but as a stepping stone towards revolutionising government services in the 21st century.

16.1 Promoting the "e-internal market"

The European Commission expects SEPA to have an impact far beyond the payments industry and related government services. SEPA will be the platform upon which e-government solutions such as e-invoicing, e-procurements, e-payments, e-signatures and e-services in relation to taxation, customs and social security will be further developed.

In line with that expectation the Commission recently reiterated its ambition to close gaps in the single market, particularly in services, and this includes: streamlining of procedures, reduction of administrative burdens, and promoting cross-border market access in particular for public procurement based on the implementation of interoperable standards.

The SEPA initiative sets an example for the development of EU-wide applicable technology standards. As such, SEPA should serve as a catalyst for the development of common standards as the basis of improved e-government solutions.

Harmonised e-government solutions and the development of related information and communication technologies (ICT) should in turn further promote more efficient public services while completing a single market for the information society, a main objective of the Commission's initiative "i2010"[11]. This initiative aims to:

- Establish a European information space, e.g. a true single market for the digital economy so as to exploit fully the economies of scale offered by Europe's 500 million strong consumer market

- Reinforce innovation and investment in ICT research given that ICTs are a principle driver of the economy

- Promote inclusion, public services and quality of life, e.g. extending the European values of inclusion and quality of life to the information society

According to the European Commission, ICT has the potential to open up the single market for the benefit of citizens, businesses and public authorities. The free movement of knowledge and innovation should be promoted as a "fifth freedom" in the single market. The EU should improve the framework conditions for innovation, in particular in the information society, by accelerating the setting of interoperable standards and moving towards more common spectrum management.

In addition, the Commission intends to address overlapping requirements, gaps or inconsistencies in ICT implementation as these may stem from differing national legal frameworks and will encourage member states to keep pace with technological change to ensure the efficient functioning of the "e-internal market".

SEPA implementation in the public sector should not be viewed as an isolated measure in the payments environment. SEPA is part of an exercise aimed at innovation and improvement of a broad range of government services.

[11] The European Commission: Preparing Europe's digital future – i2010 Mid-Term Review. Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (April 2008).

16.2 Reaping benefits of shared standardisation

In addition, SEPA could promote shared standardisation regarding a variety of services offered by government agencies across Europe. It could play a part in the delivery of common solutions in areas of common policy, whereas investments can be shared and productivity benefits of process transformation can be realised. Such a development could dramatically reduce the cost of implementing new processes and further drive cost efficiencies in the public sector.

16.3 Increasing the potential of public procurement

SEPA could also play an important role in public procurement, e.g. the purchase of goods, services and public works by governments and public administrations. Public procurement in the EU is a key sector in the European economy totalling an estimated volume of 1.5 trillion euro or 16 per cent of EU GDP, according to the most recent data available[12]. Opening up procurement markets could significantly boost competitiveness and reduce government spending.

The EPC has recommended that the SEPA standards will be a requirement in any public procurement process for delivering payments services to the public administrations in the euro area.

To obtain more information on the benefits of SEPA for public administrations please refer to the EPC publication "SEPA for the Public Sector" available at www.europeanpaymentscouncil.eu

16.4 Creating critical mass

SEPA will become a reality when a critical mass of transactions has migrated from national legacy systems to the new pan-European instruments. This goal can only be achieved if major players in the payments environment such as public administrations become dedicated SEPA customers.

The public sector is a prime economic actor and is responsible for as much as 50 per cent of the GDP in the euro area and accounts for up to 20 per cent or more of payments made in society. To reach a critical mass of SEPA payments, the engagement of the public sector is indispensable.

Moving this volume of payments made by public administrations to SEPA would not only significantly contribute to creating critical mass, but would in addition trigger the adoption of SEPA instruments by others, such as corporates and consumers. Given the wider benefits for society, public administrations could and should therefore play a major role in kick-starting migration by setting an example for all payments services users.

[12] European Commission: A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future (February 2004).

CUSTOMERS: CALL TO ACTION

17.

SEPA is the largest payments initiative ever undertaken within Europe and possibly the world. A programme of this size and scale cannot be implemented by the combined resources of the EC, the ECB and the EPC only. Governments, public administrations, merchants, corporates, trade and consumer bodies and the payments supplier sector all have roles to play in making the project as successful as the implementation of the euro.

- **Communicate positively:** use this document or extracts thereof to communicate positively the SEPA message both internally and externally to all those parties who you believe will be impacted by SEPA.

- **Assess and respond to the impact:** conduct an impact assessment to ascertain how SEPA will impact the business, administrative, technical and operational aspects of the payments processing within your organisation.

- **Assess and take the opportunity:** SEPA is not just a mandated infrastructural project. Use the change to reassess and relaunch products, services, processes and platforms to improve efficiency and to add value to your business.

- **Appoint a SEPA project manager:** appoint a senior individual with responsibility for co-ordinating all aspects of SEPA implementation and who also can act as the focal point for all internal and external SEPA communications.

- **Build and implement a SEPA plan:** Have your SEPA team construct a SEPA implementation plan which can be updated as details of the SEPA schemes and frameworks are released by the EPC.

- **Support your national SEPA Committee:** work closely with your national SEPA implementation organisation and contribute input into the national SEPA implementation plan.

- **Keep up to date:** as with the euro project, SEPA will generate many documents, new rulebooks and frameworks, as well as detailed standards and specifications. These documents will have to be absorbed and understood by the many thousands of individuals who work within the payments sector.

For the latest information on the SEPA initiative and EPC deliverables please visit www.europeanpaymentscouncil.eu

To realise the SEPA vision, the buy-in of all stakeholders, particularly in the euro area, is required.

18.

- The SEPA vision will not be realised via the existence of high-quality SEPA schemes and standards alone – just as the EU monetary union did not materialise simply because of the existence of euro notes and coins.

- The vast majority of users never asked for SEPA payment instruments with a view to replacing national ones. SEPA is not a market-driven process. SEPA is an EU-wide policy-maker-driven integration initiative designed to generate macro-economic benefits and technological innovation.

- Macro-economic benefits, however, may not be a key determining factor for individual businesses and public administrations when it comes to investment decisions. Even when considering the substantial benefits of SEPA payment solutions, it has to be recognised that existing payment applications are generally viewed to work well. In other words, customers may have other priorities than upgrading their payment processes.

> **SEPA is an EU-wide policy-maker-driven integration initiative – not a market-driven process. It is therefore essential that the political initiators of the SEPA process create the incentives needed to facilitate the change-over for customers.**

EUROPEAN COMMISSION:

- Secure the continued commitment of EU governments to the realisation of SEPA
- Create the appropriate regulatory and legal environment for the SEPA instruments to be implemented
- Provide support on a scale comparable to the introduction of the euro

EU GOVERNMENTS:

- Demonstrate leadership in the national SEPA Committees together with all other stakeholders including National Central Banks as was done for the euro-introduction
- **Ensure** consistent transposition of the Payment Services Directive (PSD) as of 1 November 2009
- Encourage and support SEPA **implementation** by public administrations at national, regional and local level. The buy-in of public administrations is of vital importance as the public sector generates more than 20 per cent of payment traffic in the EU
- Collectively agree end-dates for migration of the public sector to SEPA payment instruments
- Allocate the resources for SEPA implementation and migration in annual budgets **now**
- Require the use of SEPA standards in public procurements for payments services allowing banks to deliver SEPA payments services to any public administration in the SEPA area
- Design and implement incentives which will facilitate the change-over from legacy payment instruments to SEPA for bank customers – such as granting tax breaks for early movers, for example
- Facilitate, if necessary, the continued use of existing direct debit mandates under the SEPA Direct Debit Scheme

EUROPEAN CENTRAL BANK:

- Differing balance-of-payments reporting requirements as established by various National Central Banks pose legal barriers to the concept of one domestic euro payments market and must be removed – immediately
- For the change over to the euro a substantial communication budget was made available; a comparable communication effort should be afforded for SEPA implementation by the European Central Bank acting as a principle catalyst of the SEPA process

At this point, the success of SEPA depends – above all – on the continued commitment of and practical support by the political drivers of this project.

19.

Going forward, the EPC is focusing on additional features designed to even further increase the possibilities associated with the implementation of SEPA payment instruments. In response also to the requests of the business community, the following aspects are currently being addressed:

19.1 Bank-to-Customer communication

Ultimately, the "outcome" of a payment transaction must be communicated by a bank to the customer. This information takes place via electronic or paper based reporting messages (reports, notifications, and account statements) which inform a bank customer about payment transactions affecting his account.

The ISO standards necessary to allow the development of uniform reporting messages for SEPA transactions are under development by ISO itself. The opportunity of giving guidance (e.g. to create Implementation Guidelines) for the SEPA-wide use of these messages is under consideration by the EPC.

19.2 E & M channels

The EPC is currently developing electronic and mobile channels for the initiation of SEPA payments including necessary standards and security requirements. This will allow customers to initiate SEPA payments either online or via a mobile phone.

19.3 E-invoicing

Electronic invoicing – or e-invoicing – is a solution for the secure exchange of electronic invoices inclusive the relevant data between suppliers and buyers involving the upgrade of their sales and procurement systems. 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. E-invoices can be archived in an electronic format making it easier and cheaper to retrieve them when necessary. E-invoicing is a relatively new concept with few examples of local authorities and private sector organisations using it at the moment.

The development of a European standard for e-invoicing is outside of the scope of the EPC. The EPC is closely monitoring the progress of an expert group set up by the European Commission which is evaluating a way forward to define a European Electronic Invoicing Framework.

It is believed by some that the availability of an e-invoicing standard would encourage the implementation of SEPA Schemes on the user side, in particular by small and medium-sized enterprises.

GLOSSARY

20.

TERMS	DEFINITION
ACH	Automated Clearing House
ATM	Automated Teller Machine
Bank Identifier Code (BIC)	An 8 or 11 character ISO code assigned by SWIFT and used to identify a financial institution in financial transactions (ISO 9362).
CIT	Cash-in-transit company
Clearing	The process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlements.
Clearing and Settlement Mechanism (“CSM”)	A clearing and settlement mechanism as described in the CSM Framework. For more information please check the document “SEPA CSM Market Practices” published by the European Payments Council (www.europeanpaymentscouncil.eu / Knowledge Bank)
Direct Debit Collection	A collection is the part of a direct debit transaction starting from the collection initiated by the creditor until its end through the normal debiting of the debtor’s account or until the completion by a reject, return or refund.
EMV	Europay MasterCard Visa programme to implement CHIP & PIN security for card transactions.
EPC	The European Payments Council
EU	The European Union
Eurosystem	The Eurosystem comprises the European Central Bank and the National Central Banks of those countries that have adopted the euro
Euro Area	As of 2009, 16 countries using the euro as legal tender
Funds	In relation to a payment transaction shall mean cash, scriptural money and electronic money as defined in Directive 2000/46/EC.
IBAN	An expanded version of the basic bank account number (BBAN) intended for use internationally that uniquely identifies an individual account at a specific financial institution in a particular country (ISO 13616).
ISO	International Organisation for Standardisation
SECA	Single Euro Cash Area
Single Euro Payments Area (SEPA)	The definition of SEPA is part of the EPC Roadmap 2004-2010 approved by the EPC Plenary in December 2004. SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro whether between or within national boundaries under the same basic conditions, rights and obligations regardless of their location within Europe. SEPA is currently defined as consisting of all the EU member states plus Iceland, Norway, Liechtenstein and Switzerland. SEPA will also extend to cover the following territories that are considered to be a part of the EU in accordance with Article 299 of the Treaty of Rome: Martinique, Guadeloupe, French Guiana, Reunion, Gibraltar, Azores, Madeira, Canary Islands, Ceuta and Melilla and Aland Islands.

SEPA payments instruments	The pan-European payment instruments for payments in euro that will be delivered by banks under the SEPA programme.
SEPA payment scheme	The rules and practices for the provision and operation of a SEPA payment instrument agreed at interbank level in a competitive environment.
SEPA Business to Business Direct Debit Scheme	The SEPA Business to Business Direct Debit Scheme is the payments scheme for making direct debits across SEPA by business customers, both the debtor and the creditor, as set out in the SEPA Business to Business Direct Debit Scheme Rulebook.
SEPA Core Direct Debit Scheme	A SEPA Core Direct Debit is the payment instrument governed by the rules of the SEPA Core Direct Debit Scheme for making direct debit payments in euro throughout SEPA from bank accounts to other bank accounts as set out in the SEPA Core Direct Debit Scheme Rulebook.
SEPA Credit Transfer Scheme	The SEPA Credit Transfer Scheme is the payments scheme for making credit transfers across SEPA, as set out in the SEPA Credit Transfer Scheme Rulebook.
Stakeholders	Banks (and their associations and infrastructures), their customers (and their associations), and regulators.
Settlement	An act that discharges obligations with respect to the transfer of funds between creditor bank and debtor bank.
Terms and Conditions	The general terms and conditions that a bank has with its customers and which may contain dispositions about their rights and obligations. These dispositions may also be included in a specific agreement, at the bank's choice.
TARGET2	The Eurosystem's replacement for TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system).
(EPC) White Paper	The document which launched the European banking industry's vision and action plan for SEPA in 2002.

EUROPEAN PAYMENTS COUNCIL (AISBL)
Avenue de Tervueren 12 / B
1040 Brussels
Belgium
Phone: + 32 2 733 35 33
Fax: + 32 2 736 49 88
E-mail: secretariat@europeanpaymentscouncil.eu
www.europeanpaymentscouncil.eu

Making SEPA a Reality - The definitive Guide to the Single Euro Payments Area.
EPC document reference: EPC066-06, version 2.0

Design by arnaudbeelen.be / Brussels