European Payments Council

Driving forward the SEPA vision

ANNUAL REPORT 2009

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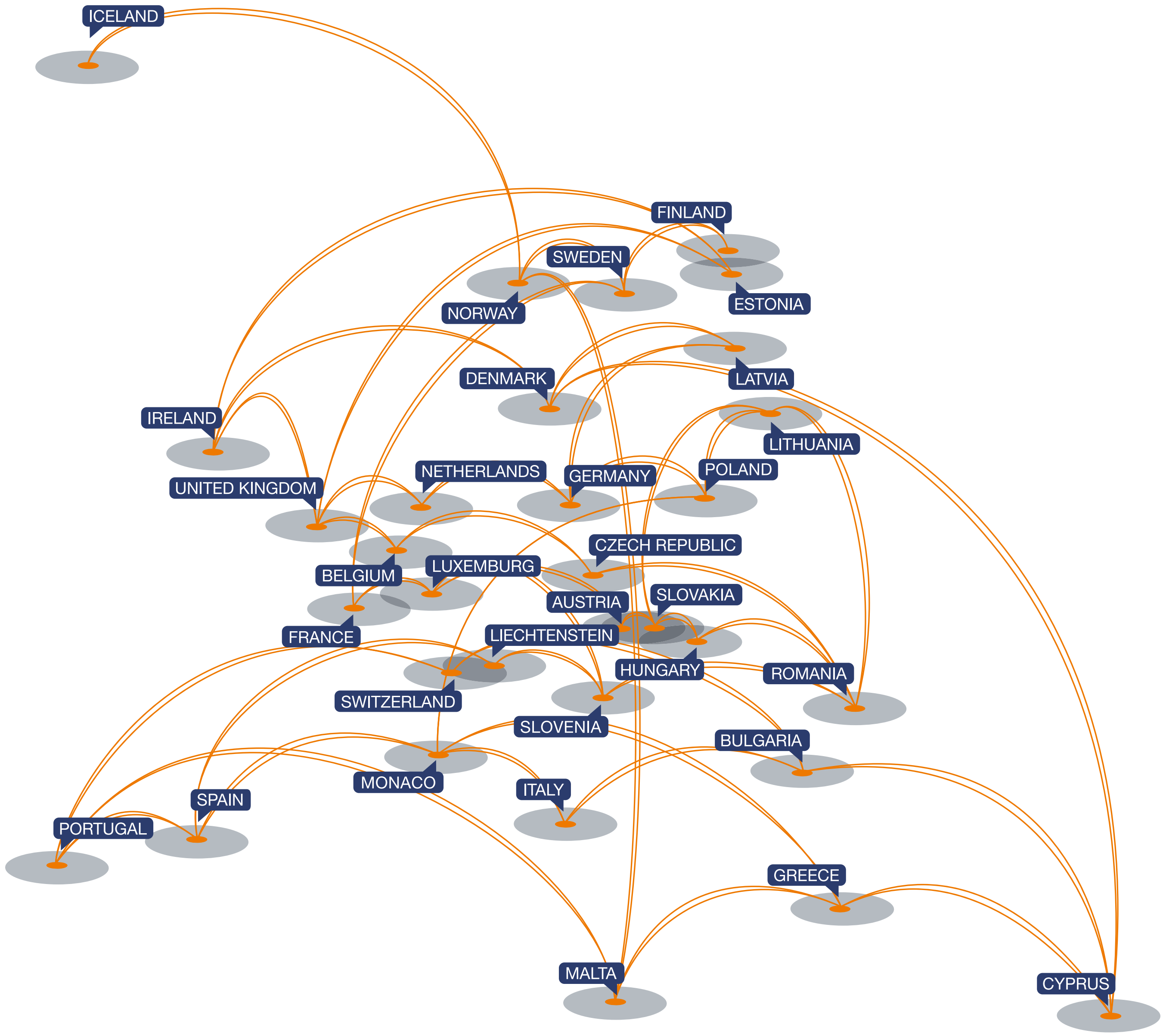
SEPA

TAKE PAYMENTS TO THE NEXT LEVEL



Driving forward the SEPA vision

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Gerard Hartsink, Chairman of the EPC

1.

MESSAGE FROM THE CHAIRMAN: driving forward the SEPA vision

Following the introduction of euro notes and coins in 2002 the political drivers of the SEPA process – the Economic and Financial Affairs Council (ECOFIN), the European Commission, the European Parliament and the European Central Bank – called on the payments industry to bolster the common currency by developing a set of harmonised schemes and frameworks for electronic euro payments.

SEPA (short for Single Euro Payments Area) is a policy-maker-driven EU integration initiative in the area of payments designed to achieve the completion of the EU internal market and monetary union. SEPA is the area where citizens, companies and other economic participants can make and receive payments in euro, within Europe, whether within or across national boundaries under the same basic conditions, rights and obligations, regardless of their location. SEPA is currently defined as consisting of the EU 27 member states plus Iceland, Norway, Liechtenstein, Switzerland and Monaco. The European Payments Council (EPC) develops the payment schemes and frameworks necessary to realise SEPA.

SEPA offers significant benefits for bank customers.

The implementation of innovative and competitive SEPA payment services based on global ISO[1] standards translates into efficiency gains for businesses and public administrations, while consumers can rely on a single set of euro payment instruments covering 32 countries: one bank account, one bank card, one SEPA Credit Transfer, one SEPA Direct Debit. The impact of SEPA, however, goes beyond monetary policy and payments services. The European Commission expects the legal and technical SEPA harmonisation exercise to facilitate the dematerialisation of business processes by replacing paper-based procedures with standardised electronic solutions such as e-invoicing.

1 International Organisation for Standardisation; see www.iso20022.org.

The EPC delivers key elements required to achieve SEPA: the highlights 2009

The European banking industry represented by the European Payments Council supports the SEPA vision and has developed the necessary harmonised payment schemes and frameworks. In 2009, further substantial progress has been made in all areas covered by the EPC work programme:

- In November 2009, the EPC successfully **launched the SEPA Core Direct Debit Scheme and the SEPA Business to Business Direct Debit Scheme**. As of this date, banks throughout SEPA are gradually starting to deliver SEPA Direct Debit services to their customers. All branches of banks in the euro area must be reachable for SEPA Core Direct Debit by 1 November 2010 as mandated by the EU Regulation on cross-border payments in the Community. On the launch date, 2607 banks representing about 70 per cent of SEPA payment volumes signed up to the new schemes; of those, 2366 banks offered both SDD Core and SDD B2B services.

- At end 2009, some 4500 banks representing 95 per cent of SEPA payment volumes offered SEPA Credit Transfer services. The **SEPA Credit Transfer Scheme** went live in January 2008. The EPC continuously enhances the SEPA Schemes in close dialogue with the user community to meet evolving customer needs based on a robust and predictable change management process. In November 2009, the EPC released **updated versions of the SEPA Scheme Rulebooks including new mandatory and optional elements which reflect further customer requirements** as identified during the annual three month public consultation. In accordance with best industry practice, the release of new Rulebook versions is being followed by a one-year freeze period giving banks and their service providers sufficient time to address the updates ahead of 1 November 2010 – the date that these revised Rulebooks will come into effect.

- The realisation of SEPA requires agreement on a common set of data to be exchanged in a common syntax. The SEPA data formats specified by the EPC for the exchange of SEPA payments represent such a common data set. The SEPA data formats are a valid subset of the **global ISO 20022 message standards**. These formats are binding for the exchange of SEPA payments between Scheme Participants (payment service providers offering SEPA services). Following the release of enhanced Implementation Guidelines for the customer-to-bank communication, in 2009 the EPC approved recommendations on the reporting of SEPA transactions by banks to their customers. As a result, **fully automated Straight-Through-Processing of SEPA transactions** along the entire process chain (customer-to-bank; bank-to-bank; bank-to-customer) is now possible. Implementation of the SEPA data formats in the customer-to-bank and bank-to-customer communication is not mandatory, but strongly recommended.

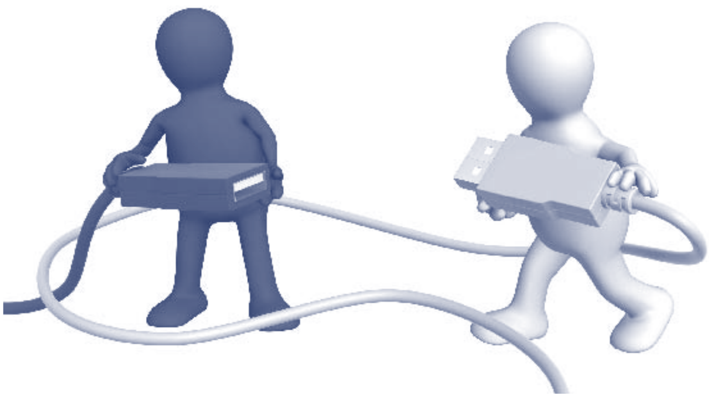
- Part of a payment instruction is information facilitating reconciliation of the payment on the side of the receiving party such as the name of the payer or the reason for payment. The SEPA Schemes require such information to be provided using Latin characters, unless banks agree to accept other characters as well (ä, à, ñ, for example). To allow unrestricted communication between bank customers (and their banks) across 32 SEPA countries, the EPC has developed – based on ISO and UNICODE character set standards – an **extended character set solution that supports the use of any characters existing in the SEPA languages**.

The aim is to have a consistent way of handling an extended character set catering for SEPA national language requirements to minimise any related rejects and other return transactions[2].

- Anticipating changing customer habits, the EPC is developing solutions empowering consumers to initiate SEPA payments online or by using their mobile phone. In 2009, significant progress was achieved in the design of the **SEPA e-Payments Framework** which should facilitate guaranteed online payments to web-retailers based on SEPA Credit Transfer. The **EPC Roadmap for Mobile Payments** approved in March 2009 spells out the main deliverables in the areas of proximity payments and remote payments initiated via the mobile handset and based on SEPA payment instruments (i.e., SEPA card payments and SEPA credit transfers).

- The aim of creating a **SEPA for Cards** is to ensure a consistent customer experience at a very high level of security when making (consumers) or receiving (merchants) card payments throughout SEPA. The 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 2009, the EPC together with representatives of the main sectors also active in the cards domain including retailers, vendors (manufacturers of cards, payment devices and related IT systems), processors and card schemes established the Cards Stakeholders Group (CSG). The CSG is mandated to progress the **SEPA Cards Standardisation Volume – Book of Requirements**. In 2009, the EPC published an updated version of the Volume addressing card-not-present transactions.

- The EPC continues to push for a **Single Euro Cash Area (SECA)** seeking, amongst other objectives, to increase the **efficiency of the wholesale cash processing cycle**; e.g. the processes required to put euro bank notes and coins in circulation and to transport them. The EPC closely monitors implementation of the roadmap defined by the European Central Bank / Eurosystem in support of the SECA objectives. In addition, the EPC developed a set of recommendations with a view to ensure greatest possible effectiveness of a regulation on cross-border euro cash transport by road. It is expected that the European Commission will introduce a related proposal in the first quarter of 2010.



2 The EPC documents “SEPA Requirements for an Extended Character Set (UNICODE Subset) Best Practices” and “Recommendation how to convert not authorised Unicode-characters in a SEPA transaction” are available on the EPC website at http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=332.

Much has been accomplished on the road to SEPA. Moving forward, the focus must be on accelerating **migration to the new euro payment instruments**. To achieve this goal, joint action by all stakeholders and leadership by the policy-makers driving the SEPA initiative is required.

SEPA market uptake: early movers have most to gain

According to the SEPA Indicators compiled by the European Central Bank (ECB), the share of SEPA Credit Transfers as a percentage of the total volume of credit transfers generated by bank customers amounted to 6.2 per cent as of December 2009[3]. The current rate of SEPA market uptake comes as no surprise. SEPA was not started nor is it designed as a demand-driven process. Bank customers did not ask for the introduction of the euro or for current euro payment instruments to be replaced. Existing payment services are generally viewed to be efficient, secure and cheap. SEPA is an EU integration initiative and the progress of roll-out reflects the average timelines required for the implementation of other such major programmes.

The **political drivers** of the SEPA project now have to **incentivise market transition**. Public administrations – accountable for up to 20 per cent of electronic payments made in society – must speed up implementation. Moving public sector payments to SEPA will create critical mass and trigger implementation by other market participants. As of end 2009, however, the public sector continues to lag behind even the modest average of SCT uptake across the EU Member States[4].

The "SEPA Readiness Survey 2009" (Deloitte) by comparison, finds that **SEPA readiness has significantly increased in the corporate sector** compared to 2008. The Survey shows that those corporates which have a dedicated SEPA team and strategy in place are already deriving significant benefits from implementation. At the same, the majority of companies now identify SEPA not only as a compliance issue, but also as a business opportunity. The survey results demonstrate that early movers have most to gain. It is hoped that the public sector will absorb this lesson sooner rather than later.

3 The SEPA Indicators compiled by the European Central Bank are publicly available at http://www.ecb.eu/paym/sepa/timeline/use/html/index.en.html.

4 For detailed information on SEPA preparedness of the public sector refer to "The Second Annual Progress Report on the state of SEPA migration in 2009" (November 2009) prepared by the Commission available at http://ec.europa.eu/internal_market/payments/docs/sepa/progress_report_2009_en.pdf.

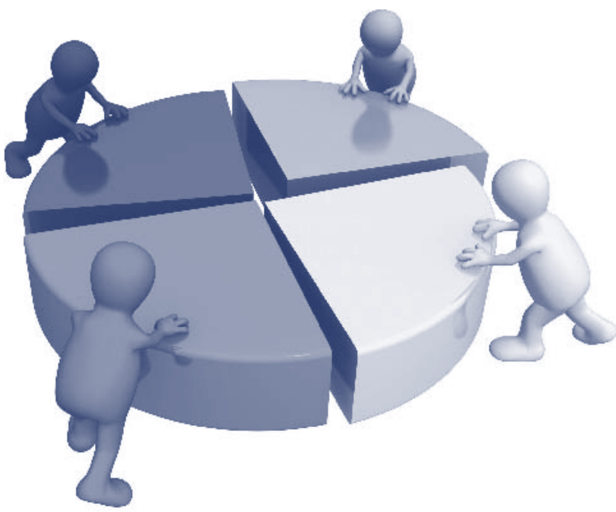
Political leadership has to materialise now: setting an end date for migration to SEPA

The rate of SEPA market uptake, however, also clearly indicates that political leadership is required now to ensure successful completion of the process.

> **Setting an end date for phasing out legacy euro payment instruments creates awareness, ensures planning security for all market participants and confirms the commitment to making SEPA a reality.**

On 2 December 2009, the ECOFIN (Economic and Financial Affairs Council – comprising the Economics and Finance Ministers of the EU Member States) recognised that setting a deadline would provide the clarity and the incentive needed by the market while ensuring that the substantial benefits of SEPA are rapidly achieved and that the high costs of running both legacy and SEPA products in parallel can be eliminated. The ECOFIN therefore invited the European Commission, in collaboration with the European Central Bank and in close cooperation with all actors concerned to carry out a thorough assessment of whether legislation is needed to set binding end dates for migration to the SEPA Schemes and to come up with a legislative proposal should this assessment confirm the need for binding end dates.

A transformation process of this dimension has to be transparent and predictable. **Mandating an EU-wide end date would require EU regulation**. It is now up to the political authorities that asked for SEPA, in particular the national governments represented in the ECOFIN, to make the necessary calls: no end date, no SEPA.



2.

ABOUT THE EUROPEAN PAYMENTS COUNCIL (EPC): designing SEPA Schemes and Frameworks

The European Payments Council (EPC) is the banking industry's coordination and decision-making body for the cooperative space of payment services.

The purpose of the EPC is to promote the Single Euro Payments Area (SEPA). The EPC defines common positions, provides strategic guidance for standardisation, formulates rules, best practices and standards and supports and monitors implementation of decisions taken. The EPC consists of 76 members representing banks, banking communities and payment institutions. More than 300 professionals from 32 countries are directly engaged in the work programme of the EPC, representing all sizes and sectors of the banking industry within Europe.

The EPC is responsible, amongst others, for the development and maintenance of SEPA payment schemes as defined in the SEPA Credit Transfer Scheme Rulebook and the SEPA Direct Debit Scheme Rulebooks. The SEPA Scheme Rulebooks and corresponding Implementation Guidelines describe sets of rules and standards that have to be observed by payment service providers when executing SEPA payment transactions. The Rulebooks provide a common understanding between banks on how to move funds from account A to account B within SEPA.

Whereas the rules and standards which make up a payment ***scheme*** are defined by banks in a collaborative space – that is the EPC – the particular payment ***product*** offered to the customer is developed by individual banks or groups of banks operating in a competitive environment. Provided that scheme rules are respected, payment service providers are free to add features and services of their choice to the actual payment product. This Annual Report addresses further aspects covered by the EPC work programme.


start

3.

SEPA DIRECT DEBIT: EPC launches the SDD Schemes in November 2009

On 2 November 2009 the EPC launched the SEPA Core Direct Debit Scheme (SDD Core) and the SEPA Business to Business Direct Debit Scheme (SDD B2B) allowing banks throughout SEPA to gradually start delivering SEPA Direct Debit services to their customers.

All branches of banks in the euro area must be reachable for SEPA Core Direct Debit by 1 November 2010 as mandated by the EU Regulation on cross-border payments in the Community (EC Regulation 924/2009). The EPC confirmed a successful kick-off: on the launch date, 2607 banks representing about 70 per cent of SEPA payment volumes signed up to the new schemes and were ready to roll-out SEPA Direct Debit services from 2 November 2009 onwards. Of those, 2366 banks offered both SDD Core and SDD B2B services[5].

The introduction of the SEPA Direct Debit Schemes required a uniform EU-wide legal framework for payments; the launch date of the SDD Schemes therefore aligned with the 1 November 2009 deadline for EU Member States to transpose the Payment Services Directive (PSD) into national law.

5 The SEPA Direct Debit Scheme Rulebooks and adjacent Implementation Guidelines are available for download on the EPC web site at www.europeanpaymentscouncil.eu / SEPA Direct Debit.

Main differences between SDD Core and SDD B2B

The SDD Core Scheme offers direct debit services involving businesses and consumers; i.e. paying utility bills. The SEPA Business to Business Direct Debit Scheme is 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.

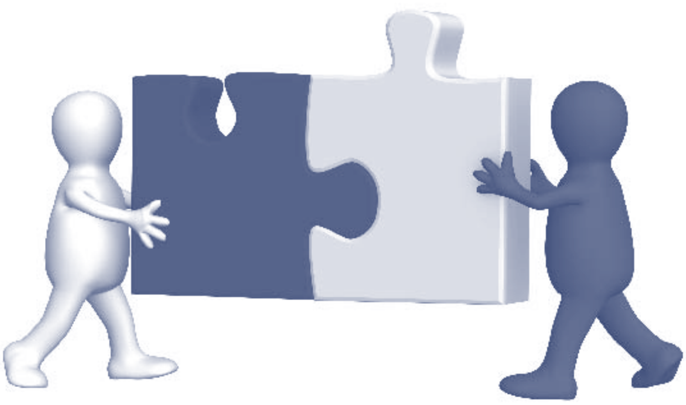
The most important differences between the SEPA Core Direct Debit Scheme and the SEPA Business to Business Direct Debit Scheme are:

- 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 authorised 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. By the same token, a creditor cannot offer bill payment via the B2B Scheme to a customer who is a consumer.

- 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 Direct Debit offers substantial benefits for businesses and public administrations

SEPA Direct Debit services enable customers – for the first time ever – to make and receive both domestic and cross-border euro direct debit payments throughout the 32 SEPA countries. The direct debit is a major payment instrument widely used in many euro area countries.

The roll-out of SDD services is a key element of the integrated euro payments market considering that the direct debit is a major payment instrument widely used in many euro area countries. From a consumer's perspective it is convenient not to have to deal with the consequences of late payments. The SEPA Direct Debit enables consumers to know exactly when their account will be debited. At the same time, the SDD Schemes allow billers to collect payments on the exact date when payments are due thus ensuring reliable cash-flow for businesses of all sizes. It is for the benefit of the economy as such if invoices are paid when they are due.

The SEPA Business to Business Direct Debit in particular supports the intra-European supply chain management of companies while boosting trade across the internal market. The SEPA Direct Debit is therefore a convenient, secure and efficient means of payment for billers and payers alike.

The endeavour of defining a European direct debit scheme requires the ability to differentiate between the needs of particular customer segments in specific national markets on the one hand and the overall requirements of the broader customer base on the other. Building a payment scheme can thus be compared to designing a car model: it is important that the basic model meets key market requirements. At the same time the model is open to include options to add extras on demand. This concept provides maximum choice to customers while avoiding that a majority of customers have to buy features they do not need.

The SDD Schemes delivered by the EPC in close dialogue with the user community are based on this concept.

The SEPA Direct Debit Schemes ensure complete consumer protection

The SEPA Direct Debit Schemes build on a direct debit model widely used and trusted by millions of bank customers in Europe.

The SDD Schemes are built on the same business assumptions and basic trust between the parties involved as the established pre-SEPA, national direct debit model used for decades in the majority of EU Member States. Millions of consumers, firms and institutions are making direct debit payments based on this long-standing proven and trusted relationship model in countries such as, for example, Germany (6.9 billion direct debits in 2007), the United Kingdom (3.0 billion), France (2.9 billion), Spain (2.2 billion) or the Netherlands (1.2 billion).

The SEPA Direct Debit Schemes apply consumer rights as stipulated by the law, e.g. the Payment Services Directive (PSD). The SDD Core Scheme provides for complete protection of consumers due to a **"no-questions-asked" refund right during the eight weeks following the debiting of a consumer's account**. The refund rights in case of authorised transactions enjoyed by consumers under the SDD Core Scheme are actually more generous than required by the PSD. In the event of unauthorised direct debit collections, the consumer's right to a refund extends to thirteen months.

In addition, banks servicing billers who collect direct debit payments must ensure that only trustworthy billers are able to collect payments via SEPA Direct Debit. This is also in the interest of banks as they would have to cover any losses resulting from fraudulent and/or erroneous transactions.

The SEPA Direct Debit Schemes respond to the requirements of all European consumers

The EPC recognises that different legacy direct debit models exist in the EU. To ensure a smooth transition for all bank customers, the SEPA Direct Debit Schemes include options allowing banks to meet specific customer needs based on different national direct debit schemes currently in place. Today's national direct debit schemes fall into two broad categories:

1. A model using the so-called "creditor-driven" mandate flow
2. A model using the so-called "debtor-driven" mandate flow

The SDD Core Scheme is based on the first model; e.g. a creditor-driven mandate flow. With a mandate the consumer (debtor) authorises a biller (creditor) to collect payment by direct debit. In addition, the mandate authorises the consumer's bank (debtor bank) to debit the consumer's account when a direct debit collection is presented.

The SDD Core Scheme uses a traditional paper document featuring the handwritten signature of the customer as basis of the agreement between a debtor (payer) and a creditor (payee).

Under the SDD Core Scheme, the debtor completes and signs a paper-based mandate and sends it directly to the creditor. This direct debit model is used in most EU Member States today.

The creditor – not the debtor bank – is responsible for storing the original mandate, together with any information regarding amendments relating to the mandate information or its cancellation.

In this scenario the debtor bank (consumer bank) does not receive any mandate-related information from its customer nor is the debtor bank responsible for checking the right of a biller to collect a payment from a consumer's account. As indicated above, an easy, "no-questions-asked"-refund procedure within the timelines specified in the PSD applicable in all SEPA countries protects the consumer from unwanted debits to his account.

In addition, the SDD Core Scheme has built-in features that allow payment service providers to emulate some of the typical "debtor-driven" mandate flow services; e.g. the scheme stipulates the obligation that (first) collections are sent to the debtor bank between five to fourteen days before the due date, so that debtor banks could provide additional checks whether a debtor authorised this collection.

To help in meeting the preferences of consumers living in those EU Member States currently using the debtor-driven mandate flow, the option to create mandates through the use of electronic channels – called e-mandates – was developed for the SEPA Direct Debit (see also below). The inclusion of the e-mandate option in the SEPA Direct Debit provides an additional means of authorising direct debit collections.

The e-mandate option included in the SDD Schemes is an additional way to help meeting the needs of bank customers used to direct debit processes existing in some EU Member States today which rely on mandates issued by the debtor bank.

When the consumer issues an e-mandate, the mandate information stays directly with the consumer's bank thus providing the debtor bank with the option to verify the authorisation of a direct debit collection.

Secure and convenient: the e-mandate option

Following the inclusion of the e-mandate option into the SEPA Core Direct Debit Scheme Rulebook in December 2008, this feature was also integrated into the SEPA Business to Business Direct Debit Scheme Rulebook in June 2009. The SDD Rulebooks now provide the possibility to issue mandates created through the use of electronic channels – called e-mandates. The e-mandate solution is based on secure, widely used online banking services offered by debtor banks today. The debtor can re-use his online banking credentials. No additional means of identification are necessary. The e-mandate solution is an optional service offered by banks to their customers.

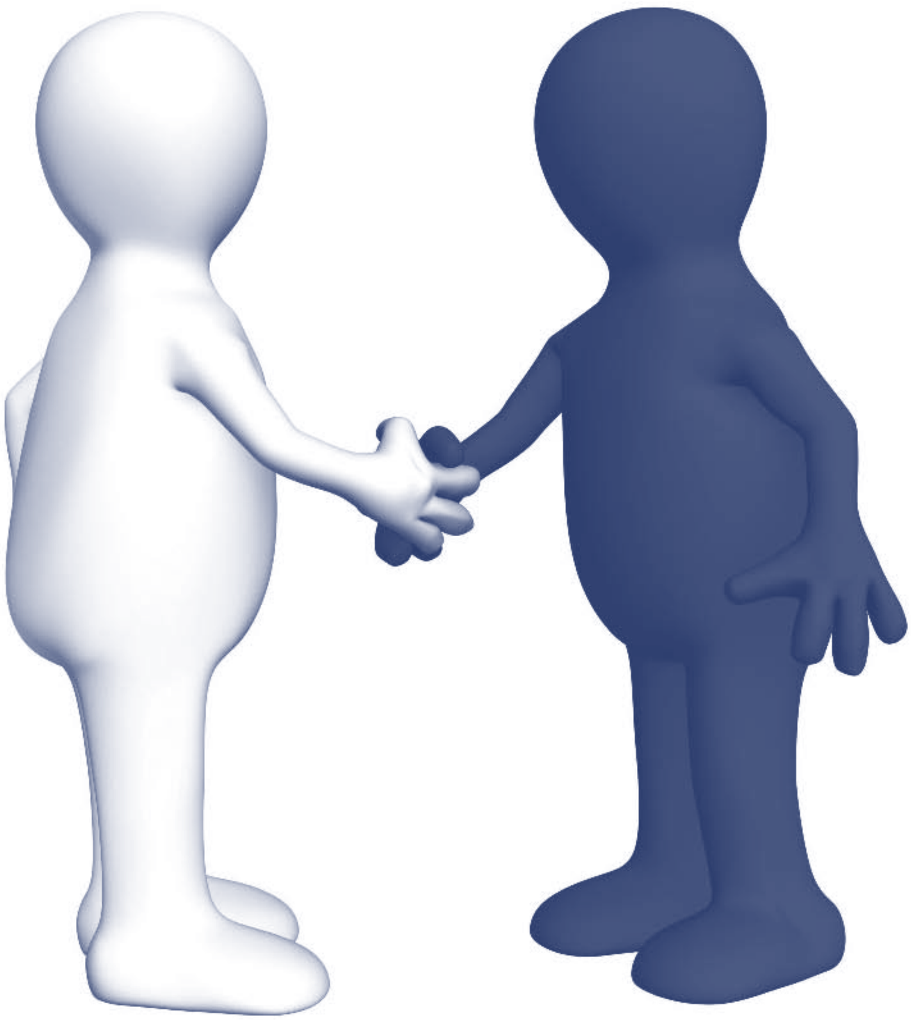
The inclusion of the e-mandate feature in the SEPA Direct Debit Schemes offers a variety of benefits for creditors as well as debtors.

Advantages for creditors include:

- The solution allows fully automated end-to-end processing of e-mandates including issuing, amendment and cancellation of such mandates while eliminating the need to deal with a multitude of local technical or organisational barriers
- The e-mandate is agreed on in a secure way
- The confirmation of the debtor's right to access the account is specified by the debtor bank
- The e-mandate process allows automatic storage and retrieval of e-mandate data

Advantages for debtors include:

- The debtor avoids the inconvenience of printing, signing and mailing a paper form to the creditor by using a fully electronic process instead
- The e-mandate facility is based on secure, widely used online banking services of the debtor bank; the debtor, therefore, can simply rely on the online banking procedures he is already familiar with

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4.

SEPA CREDIT TRANSFER: new features meet additional customer requirements

The EPC continuously enhances the SEPA Schemes in close dialogue with the user community to meet evolving customer needs based on a robust and predictable change management process.

The SEPA Credit Transfer Scheme Rulebook (SCT) now includes features taking account of further key customer requirements. Specifically, additional elements aimed at facilitating end-to-end straight-through-processing (STP) were incorporated into the SCT Scheme[6].

The following features took effect in February 2009:

"On-behalf-of" payments and "reference parties"

The inclusion of "on behalf of" payments allows a corporate in-house bank or a payment factory to execute payments on behalf of a subsidiary. (Payment factories deliver payment-related services on an industrialised scale to customers such as corporate businesses, banks and clearing houses, among others).

6 The SEPA Credit Transfer Scheme Rulebook and adjacent Implementation Guidelines are available for download on the EPC web site at www.europeanpaymentscouncil.eu / SEPA Credit Transfer.

The further addition of the so-called "reference parties" enables the two entities making or receiving thepayment on behalf of third parties to actually reference these third parties. For example: a corporate customer has outsourced its payment business to a payment factory. The payment factory is now able to initiate a SEPA Credit Transfer on behalf of this corporate customer to pay an outstanding invoice. Vice versa, the "on-behalf-of" element allows the payment factory to receive a payment in lieu of this customer.

Specification of the reason of payment ("purpose codes")

The inclusion of the "category purpose" and "purpose" codes allows originators (payers) to add information to the payment instruction specifying the reason for making the payment. As such, payments can be classified as tax payments or salaries, for example. This same feature also makes it possible – in agreement with the originator bank – to request specific processing for the payment. For example, the originator can instruct salary payments to be credited to the beneficiary on a specific date.

Next generation: recall of erroneous transactions

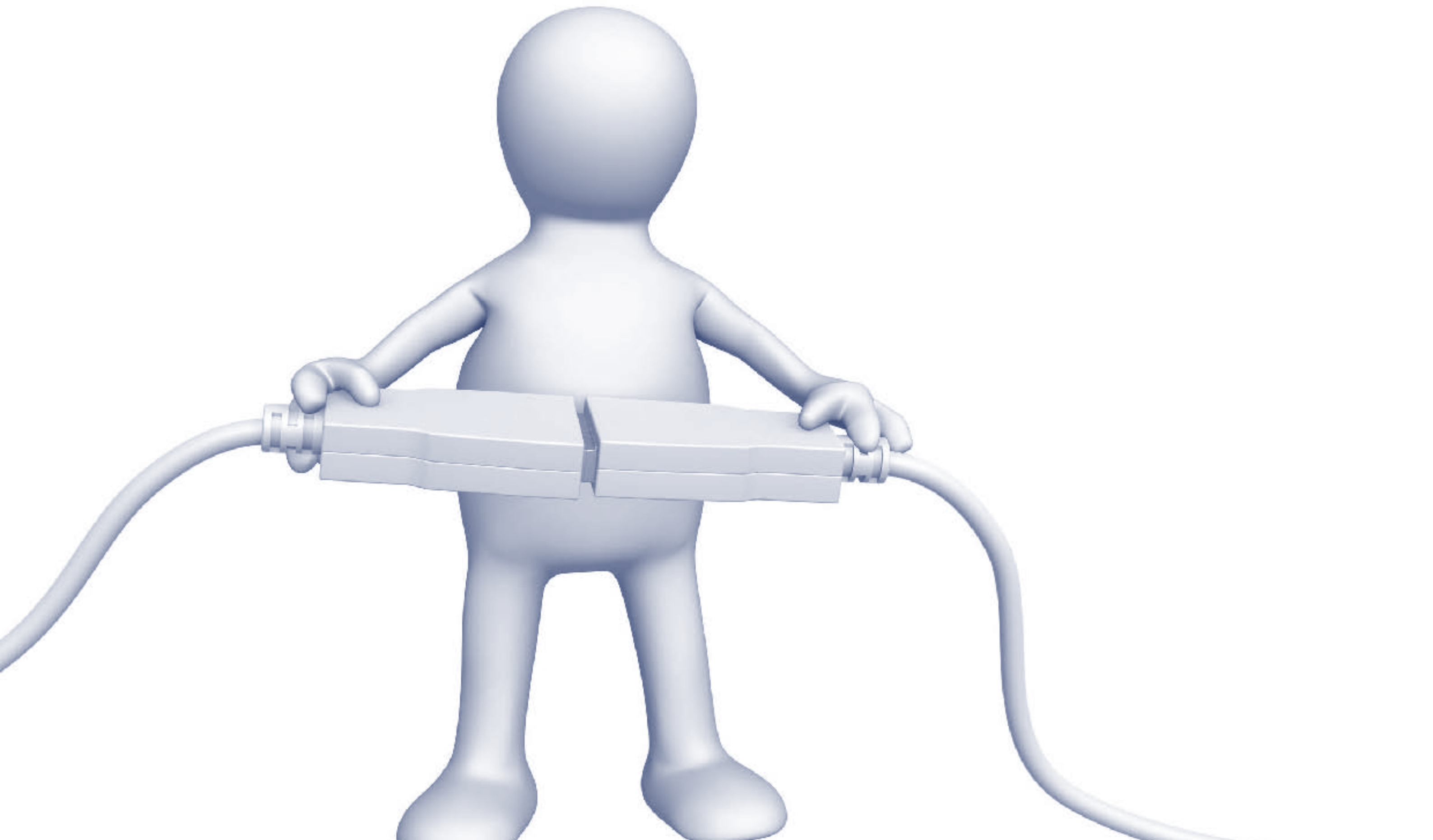
In October 2009 the EPC approved the SEPA Credit Transfer Rulebook version 4.0 to take effect in November 2010. Version 4.0 of the SCT Rulebook features the following additional mandatory element: banks originating a SEPA Credit Transfer (SCT) can request a recall in the event of duplicate or erroneous transactions.

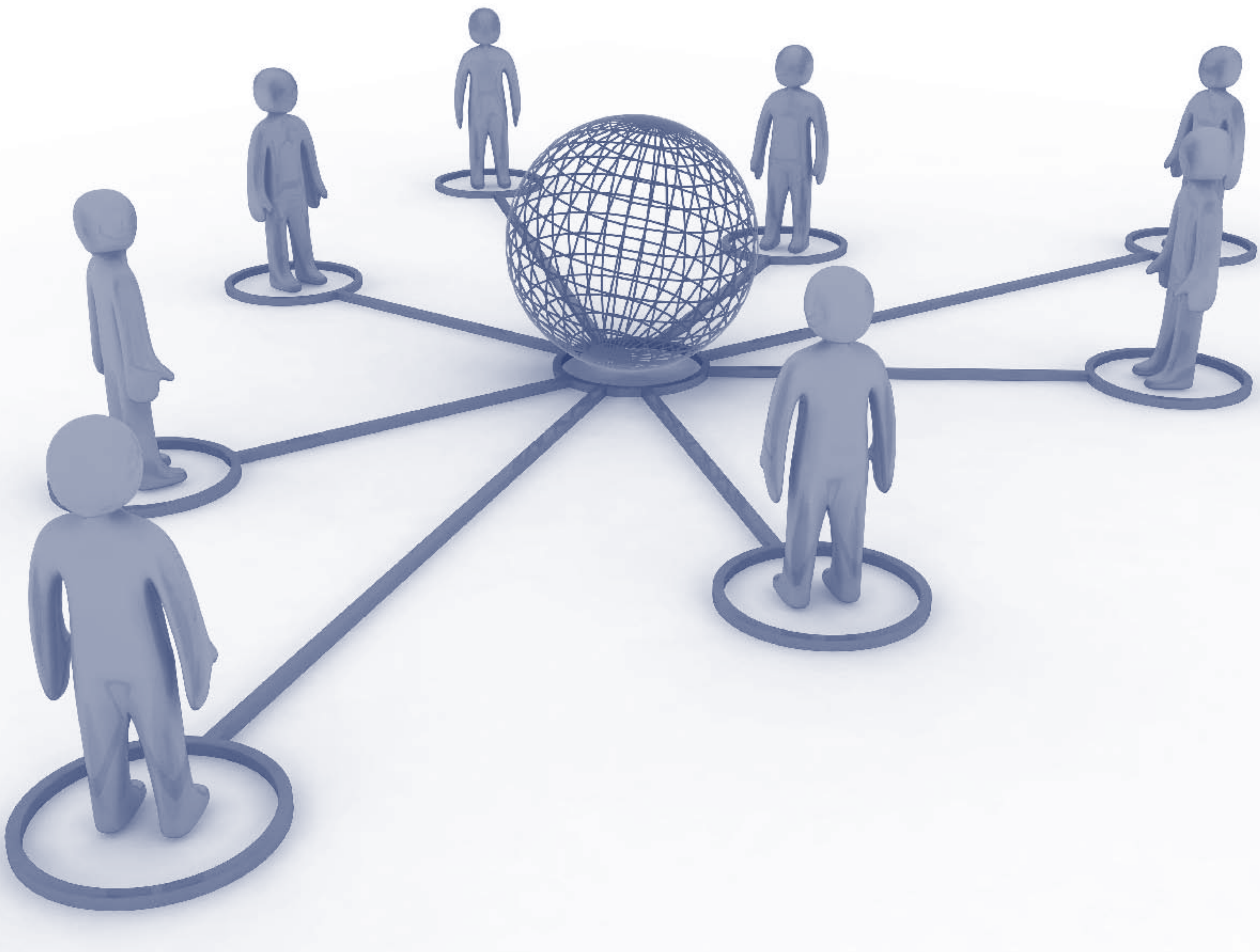
Next generation: matching of incoming payments against accounts receivable

The EPC ensures compatibility of the scheme with other developments taking place in the area of payment standardisation. The SCT Rulebook version 4.0 therefore allows billers to automatically reconcile incoming payments with outstanding invoices based on the ISO Creditor Reference Standard (ISO 11649 developed by the International Organisation for Standardisation) resulting in more efficient cash management.

The ISO Structured Creditor Reference to Remittance Information (in short: the ISO Creditor Reference standard) further increases the rate of straight-through payment processing. Whereas similar standards have been developed at national level, the ISO standard provides for the first time a means of automatic reconciliation fit for global use. The EPC recognises that the ISO Creditor Reference standard offers the potential for SEPA-wide application and provides guidance for banks, businesses and service providers on the optional application of this standard in the context of the SEPA schemes[7].

7 The document EPC142-08 “EPC Guidance on Creditor Reference ISO Standard” is available for download on the EPC web site at www.europeanpaymentscouncil.eu / Knowledge Bank.





5.

SEPA IMPLEMENTATION GUIDELINES: enjoy SEPA end-to-end

In the world of payments processing, the role of the data format used to exchange information can be compared to the role of language in communication between people. The realisation of SEPA requires agreement on a common set of data to be exchanged in a common syntax. The SEPA data formats[8] specified by the EPC for the exchange of SEPA payments like direct debits and credit transfers represent such a common data set, respectively. The SEPA data formats are a valid subset of the global ISO 20022 message standards.

The availability of standardised Implementation Guidelines for the customer-to-bank (C2B) space and of the recommendations on bank-to-customer (B2C) communication based on the SEPA data formats is an important prerequisite for the realisation of end-to-end SEPA payment solutions[9].

Standardised end-to-end processes (customer to bank, bank to bank, bank to customer) allow for cost-efficient straight-through-processing of billions of electronic payment transactions.

8 For further information on the SEPA data formats underlying the SEPA Implementation Guidelines refer to the EPC publication “Shortcut to the SEPA Data Format” available for download on the EPC web site at www.europeanpaymentscouncil.eu / SEPA Customers.

9 The SEPA Implementation Guidelines are available for download on the EPC web site at www.europeanpaymentscouncil.eu / SEPA Direct Debit and www.europeanpaymentscouncil.eu / SEPA Credit Transfer, respectively.

Customer-to-bank communication

Consultations of bank customers carried out regularly to identify their SEPA requirements have revealed the pronounced need – voiced in particular by the corporate community – for standardised means of customer-to-bank communication. The EPC provides a common set of data to be exchanged between bank customers and banks when initiating a SEPA transaction. This is a requirement of bank customers such as businesses and public administrations executing mass payments. Already in 2008, the EPC approved enhanced SEPA Implementation Guidelines applying to the customer-to-bank messages. Such guidelines based on the SEPA data formats are available with respect to the SEPA Credit Transfer Scheme and the SEPA Direct Debit Schemes.

The introduction of harmonised message standards to initiate SEPA payments based on the SEPA data formats provides an opportunity for customers to reach any bank in SEPA allowing for rationalisation which in turn would significantly reduce the costs associated today with the maintenance of a multitude of payment accounts and / or platforms in different SEPA countries.

The use of the SEPA data formats is mandatory for the exchange of SEPA payments between banks. However, taking into consideration differing market practices in the SEPA countries today, the use of the SEPA data formats in the customer-to-bank communication is recommended by the EPC, yet not mandated. Banks may continue to accept other formats from customers for the instruction of SEPA payments.

To encourage straight-through-processing (STP) of SEPA transactions along the entire payment processing chain, in 2009 the EPC published recommendations on how to map SCT and SDD Rulebook requirements to payments reporting from banks to customers.

Bank-to-customer communication

Ultimately, the "outcome" of a payment transaction must be communicated by a bank to the customer. Such communication takes place, for example, via account statements informing bank customers about payment transactions processed on their account.

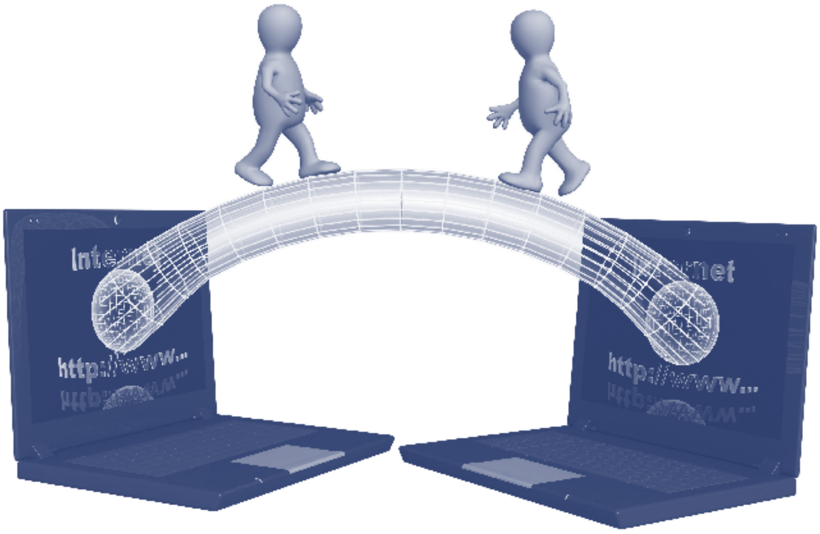
As a result, the data required by the schemes can now be moved end-to-end from customer to bank, from bank to bank and from bank to customer in a manner compliant with the ISO 20022 initiation, bank-to-bank and cash management messages[10].

The EPC recommendations on customer reporting allow for the uniform mapping of SCT and SDD Rulebook requirements to the ISO 20022 cash management messages whilst respecting the fact that practices with regard to reporting on payment transactions are currently very diverse across different banking communities and customer segments.

The EPC recommendations therefore enable competitive services to be provided by banks with regard to customer reporting based on their individual agreements with customers. These may range from restricted information in mass payments to tailor-made reporting, from instantaneous transaction-per-transaction information to global periodical transaction reporting. As a result, banks are able to adjust outgoing reports based on the ISO messages according to the needs of their customers whilst ensuring that all data carried with a SEPA transaction are transported.

The EPC strongly recommends that banks offering services based on the SEPA Schemes follow the EPC recommendations on customer reporting.

10 See www.iso20022.org.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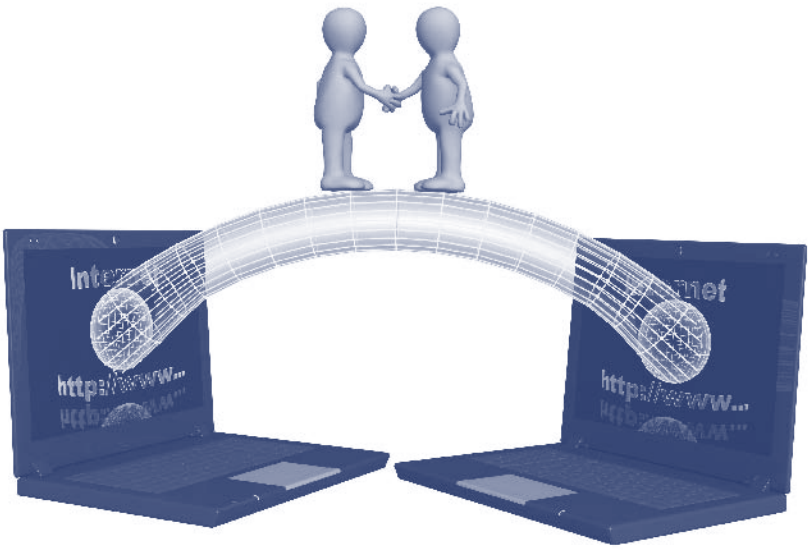
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6.

SEPA e-PAYMENTS FRAMEWORK: how to make online payments across 32 countries

In response to the rapidly increasing volume of e-commerce the EPC committed to provide a Framework outlining the specific rules and standards relating to e-payment schemes making use of the SEPA Credit Transfer.

The first deliverable will be the SEPA e-Payments Framework facilitating guaranteed online payments to web-retailers based on SEPA Credit Transfer.

The Framework will create a situation where a number of e-payment schemes existing in the market today can migrate from a national environment to a SEPA environment. E-Payment schemes are facilities which allow online buyers to have payments debited from their own current account. Many of these e-payments schemes, however, today only work within national borders. An e-payment scheme compliant with the SEPA e-Payments Framework will enable a buyer using the Internet to visit the web-shop of an online merchant regardless where he is located in SEPA, and to pay the merchant using both his own internet banking services and his current bank account[11]. The EPC will define minimum criteria, including legal and security aspects which must be fulfilled by an e-payment scheme in order to be "SEPA-compliant".

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

The long-term goal of the SEPA e-Payments Framework is full reachability for consumers, where

- All e-payment schemes in SEPA, which fulfil the minimum criteria defined by EPC, are enrolled to the Framework;
- Each bank in SEPA is a member of (at least) one e-payment scheme enrolled to the SEPA e-Payment Framework;
- Each account holder in SEPA can make SEPA e-payments;
- The use of a “SEPA” logo by enrolled e-payment schemes should provide a consistent user experience throughout SEPA.

The long-term goals associated with the Framework will be achieved by market forces, not by EPC decisions. An e-payment scheme that elects to enrol to the SEPA e-Payment Framework will be obliged to become technically and commercially interoperable with all other enrolled e-payment schemes, and only enrolled schemes will be able to make use of a SEPA e-Payment Framework branding. Enrolment to the Framework will be voluntary for e-payment scheme owners and participation in any e-payment scheme is at the discretion of each bank. Approval of the SEPA e-Payments Framework is planned for June 2010.


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7.

SEPA FOR MOBILE: making SEPA payments on the go

Mobile phones have achieved full market penetration and rich service levels throughout the EU, making the mobile channel an ideal launch pad for SEPA payment instruments.

The EPC is therefore developing the mobile channel as an initiation channel for SEPA payments.

Exploring the mobile eco-system to promote SEPA: the role of the EPC

The EPC, working together with mobile operators and other stakeholders, is in the process of establishing the necessary standards and business rules with regard to the initiation and receipt of credit, debit and card payments through mobile phones. The aim is to develop proposals that are ripe for collaboration and standardisation and which form the basis for interoperability.

The intention is to establish a service framework sufficient to reach potentially all payers/payees in the European Economic Area (EEA) and to create a trusted and secure environment that multiple stakeholders can use to facilitate SEPA payments initiated through the mobile channel in a convenient way. At the same time, a common technical interoperability and business framework will avoid market fragmentation which would hinder the emergence of open, non-proprietary technology standards for user-friendly mobile payment services.

Cross-industry cooperation is established through collaboration with mobile operator associations, mobile payment pilot organisations and non-profit (standardisation) bodies, including financial institutions, payment processors, system and infrastructure manufacturers and service providers. Through cooperation with these various organisations it is envisaged that the design of frameworks and supporting technologies will enable reachability to SEPA payment schemes via m-channels. Equally important, the elaboration of minimal security and usability settings from the end-user perspective will form the second aspect of this cross-industry collaboration.

The EPC Roadmap for Mobile Payments approved in March 2009 shortlists the following work items currently being addressed:

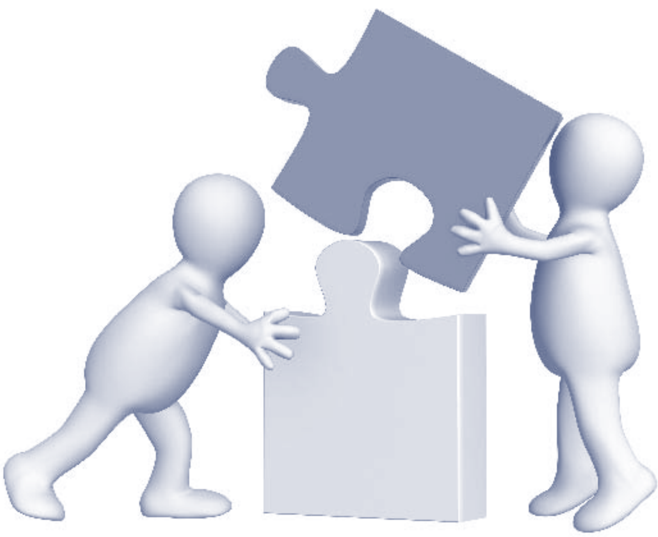
- SEPA card proximity payments – all use cases except person to person

- SEPA card mobile remote payments for person to business, business to business and person to person

- SEPA Credit Transfer mobile remote payments – all use cases

At the same time, significant progress is being made with regard to the further development of contactless NFC-based payments (Near Field Communication) using the mobile phone, a project which enjoys the highest priority. To this end, the EPC is cooperating with the global mobile network operators represented by GSMA.

The standards, rules and practices developed by the EPC in this area will be made publicly available to market participants and providers within the m-channel value chain. It will be the responsibility of each of them, or of any grouping thereof, to decide when and how to adopt these, and in particular towards which segment or segments of the payments market their products and services will be geared.



Next step: TSM Service Management Requirements and Specifications

In February 2010 the EPC and GSMA, representing the interests of the worldwide mobile communications industry, have released the paper "TSM Service Management Requirements and Specifications" in the Single Euro Payments Area for public consultation. This document describes the different roles and processes involved in the provision and lifecycle management of banks' mobile contactless payment (MCP) applications integrated into a mobile phone. The EPC and GSMA are focused on defining requirements and specifications regarding the roles of Trusted Service Managers to interface with banks and mobile operators. TSMs will facilitate the distribution, configuration and activation of the bank's payment application on the Universal Integrated Circuit Card (UICC, also known as a SIM card) within bank customers' Near Field Communications (NFC) handsets (their mobile phone). This technology allows, for example, payment using a mobile phone at a card payment terminal provided by a retailer or when purchasing from a vending machine.

The definition and specification of the requirements and business models for TSM services closes an existing gap in the new NFC ecosystem. The consultation launched by the EPC and GSMA will eventually lead to shared solutions supporting the establishment of commercial relationships between banks, mobile network operators and Trusted Service Managers thus promoting mobile contactless payments across SEPA. In addition, the agreement on TSM specifications allows interested parties to develop services in the role of a TSM. Further information on this project is available at www.europeanpaymentscouncil.eu.

Next step: EPC White Paper on Mobile Payments

To achieve a common understanding on mobile payments amongst all market participants and to make known the specific activities of the EPC in this context the EPC in February 2010 released the "White Paper on Mobile Payments" for consultation. A final version of the White Paper is expected to be published by April 2010.

8.

SEPA FOR CARDS: creating interoperability based on open standards

The aim of creating a **SEPA for Cards** is to ensure a consistent customer experience when making (consumers) or receiving (merchants) card payments throughout SEPA.

The SEPA for Cards will be achieved to the greatest extent possible through the use of open and free standards, available to all parties within the card payment value chain.

The EPC is championing a cards standardisation programme designed to remove technical obstacles preventing a consistent customer experience throughout the SEPA cards market. This project encompasses the definition and description of core requirements to be implemented throughout the card payment and cash withdrawal value chain (including certification) in order to enable compliance with the SEPA Cards Framework (SCF).

The Cards Stakeholders Group

In 2009, the EPC established the Cards Stakeholders Group (CSG) together with representatives of the main sectors also active in the cards domain including retailers, vendors (manufacturers of cards, payment devices and related IT systems), processors and card schemes. Creating this body makes it possible to pinpoint expectations of a broad range of stakeholders while ensuring a strong co-management in the process of identifying the requirements and best practices that will promote interoperability in the SEPA cards market.

The SEPA Cards Standardisation Volume – Book of Requirements

The CSG is mandated to progress the SEPA Cards Standardisation Volume – Book of Requirements. The latter defines the functional and security requirements as well as the target evaluation methodology and certification architecture needed to achieve interoperability based on open and free standards within SEPA.

In December 2009, the EPC approved the SEPA Cards Standardisation Volume – Book of Requirements version 4.0 for publication. This version was prepared by the "Volume Sub-Group" of the Cards Stakeholders Group. Version 4.0 has been enhanced primarily in the area of card-not-present transactions. Chapters 5 and 6 remain unchanged compared to the previous version. Following public consultation in May and June 2010, a further revised version of the Volume including "certification and security" chapters is expected to be released in December 2010.

Updated version of the SEPA Cards Framework

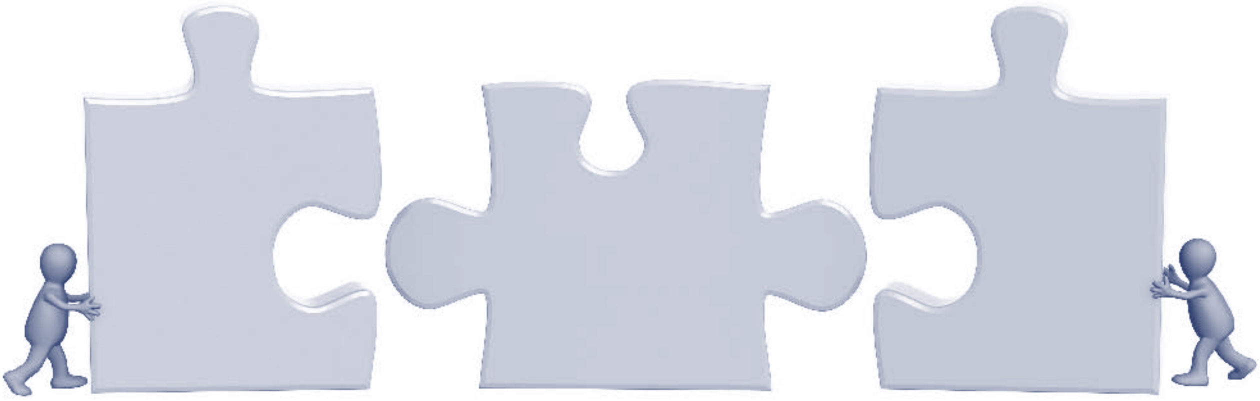
The SEPA Cards Framework developed by the EPC outlines high level principles and rules that when implemented by banks and card schemes will deliver a consistent customer experience throughout the SEPA cards market. The SCF is designed to enhance levels of interoperability within SEPA by defining common standards, improving transparency and removing other barriers to the development of a SEPA for Cards. The SCF continues to evolve to reflect changing regulatory requirements.

In December 2009, the EPC approved version 2.1 of the SCF for publication. The SCF version 2.0 was issued in March 2006 and since then there were important developments that required an update such as publication of:

- The EPC document "Questions & Answers clarifying key Aspects of the SEPA Cards Framework" dated June 2008 which referred to version 2.0 of the SCF
- The Eurosystem 6th SEPA Progress Report
- The Eurosystem "Oversight Framework for Card Payment Schemes"
- The Eurosystem Terms of Reference for the SEPA compliance of card schemes

In addition, the SCF was aligned with the Payment Services Directive and EC Regulation 924/2009 on cross-border payments in the Community, repealing Regulation 2560/2001. The publication of a further revised version 3.0 of the SCF in the course of 2010 is under consideration[12].

12 The SEPA Cards Framework and the SEPA Cards Standardisation Volume – Book of Requirements are available for download on the EPC web site at www.europeanpaymentscouncil.eu / SEPA for Cards.

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9.

SINGLE EURO CASH AREA: the EPC cash repositioning strategy

The EPC continues to push for a Single Euro Cash Area (SECA) seeking, amongst other objectives, to increase the efficiency of the wholesale cash processing cycle; e.g. the processes required to put euro bank notes and coins in circulation and to transport them. The EPC believes that actions by all stakeholders within the euro area could contribute to reduce the high cost to society as a whole of processing and handling cash. The plans for the SECA are developed in dialogue with the Eurosystem Banknote Committee (BANCO), banks and other key players such as cash-in-transit companies (CITs).

Consumers continue to have a great affection for cash payments. It is estimated that today four out of five face-to-face transactions are made with notes and coins in the EU. However, cash payments are costly for society: the total expense per year to the EU economies has been estimated at between 50 billion and 75 billion euro[13].

Monitoring the progress of the ECB / Eurosystem Roadmap promoting convergence of NCB cash services

A main goal of SECA is to create an infrastructure for wholesale cash distribution; e.g. a level playing field featuring common service levels as regards the basic cash functions performed by National Central Banks (NCBs). To this end, the ECB / Eurosystem in its role as issuer of euro bank notes (coins are a national responsibility) published in 2007 a roadmap entitled "Measures for more convergence of NCB cash services". At the same time, the roadmap encourages NCBs to implement a harmonised approach to electronic communication with professional parties.

According to the monitoring by the EPC in 2009, substantial progress – particularly in the euro area – has been achieved as regards implementation of the ECB / Eurosystem Roadmap by National Central Banks. Also NCBs in the non-euro area are stepping up related activities to the immediate benefit of local banks and CIT companies. In the mid-term, driving forward the creation of a wholesale cash infrastructure in the non-euro countries will, in addition, greatly facilitate adoption of the euro in these countries once they might choose to do so. Despite these positive developments, however, further steps need to be taken to fully realise the advantages of the Single Euro Cash Area, especially in light of the fact that some NCBs are considering reducing the number of their branches. In particular, CIT companies must be able to establish cross-border cash transporting routes; e.g. they must be allowed to access the closest available NCB branch.

13 The estimate is based on data provided by the EPC Cash Working Group and ECB data as analysed by PSE Consulting.

EPC recommendations with regard to proposal for a Regulation on cross-border euro cash transport by road

In SECA, as envisioned by the EPC, CITs should be able to establish cross-border cash transporting routes. However, eight years after the introduction of euro coins and banknotes CITs continue to operate almost exclusively within national boundaries due to existing differences between related legal regimes in Member States. To remedy the situation, the European Commission intends to introduce a proposal for a Regulation on cross-border euro cash transport by road during the second quarter of 2010. In 2009, the EPC developed a set of principles with a view to ensure greatest possible effectiveness of legislation in this matter:

- Whilst the European Commission in a related White Paper proposes to limit the scope of a Regulation on cross-border cash transport to cover euro coins and banknotes only, the EPC recommends extending the value type scope also to non-euro currencies and other precious values.

- Regulation on cross-border euro cash transport should apply in all EU Member States, whether they are a euro country or not. This would provide equal opportunities to CITs from euro and non-euro countries to compete for cross-border routes involving various value types. The Commission, however, currently considers introducing two separate pieces of legislation: one comprehensive regulation applying to the euro-zone countries and a second regulation giving non euro-zone countries the possibility to “opt in”.

- A CIT validly licensed and registered in one Member State should be allowed to perform cross-border cash transport if the CIT complies with the security dispositions in force in the visited Member State. The same should apply to a CIT located in a Member State where licensing is not required if the CIT has equivalent authorisation and has effectively provided cash transport services for at least 12 months.

- Security vehicles should be granted full flexibility to leave the Member State home base, execute its itinerary throughout multiple border zones, deliver its content at a CIT centre in a neighbouring Member State at end of day and stay overnight at this particular centre (to start a new border route early next day). Constraints set by the visited Member State for cash transporters licensed in this Member State should apply to the visiting CIT security vehicle as well.

- Different options are currently considered with a view to achieve the necessary harmonisation: mutual recognition of national legal regimes, full harmonisation of CIT transport in the Member States or common rules on cross-border transport only. The approach of choice should ensure that the following objectives are achieved:

  1. As a minimum, professionals should have the possibility to transport cash cross-border within set "corridors" of a wide kilometre range on each side of a border. Within these corridors, professional cash transporters of one Member State should be free to service merchants and retailers, financial institutions and their branches as well as National Central Bank branches in another Member State, provided they comply with the security dispositions mandated by the visited Member State.

  2. If, as a transitional measure, cross border corridor boundaries would have to be determined, these corridor limitations should be lifted in the long term so that any professional cash transporter would be allowed to render services anywhere in the EU.

Last but certainly not least, EU legislation on this matter must not lead to dispositions which could negatively impact the current security levels and/or increase the cost for the users of professional national cash transport by road in the Member States concerned.

10.

SEPA ONLY: setting an end date for migration to SEPA

Now that the banking industry has implemented the SEPA infrastructure envisioned by the European authorities, the next item on the agenda is to set an end date for migration to the new SEPA payment instruments.

On 2 December 2009, the ECOFIN (Economic and Financial Affairs Council – comprising the Economics and Finance Ministers of the EU Member States) concluded that "establishing definitive end-dates for migration [to SEPA Credit Transfer and SEPA Direct Debit] would provide the clarity and the incentive needed by the market, ensuring that the substantial benefits of SEPA are rapidly achieved and that the high costs of running both legacy and SEPA products in parallel can be eliminated".

The ECOFIN asked that the European Commission, in collaboration with the ECB and other actors concerned, assess the need to set a binding end date separately with regard to each SEPA Scheme, taking into account specific preconditions of Member States (e.g. euro zone versus non-euro zone Member States). Moreover, specific needs and interests of end users would have to be considered. Finally, different possibilities for setting an end date should be demonstrated, each with its advantages and disadvantages (e.g. EU-regulation, ECB-regulation, national measures). The market is now awaiting the results of this assessment.

The EPC recognises the value of setting a deadline for migration to SEPA services.

An end date for phasing out legacy euro payment instruments creates awareness, ensures planning security for all market participants and confirms the commitment to making SEPA a reality.

This view is shared by the European Central Bank as well as the European Parliament. The latter already in March 2009 called on the European Commission to set a "clear, appropriate and binding end date, which date should not be later than 31 December 2012, for migrating to SEPA products". In the view of the EPC, mandating an EU-wide end date would require EU regulation.

Political leadership has to materialise now

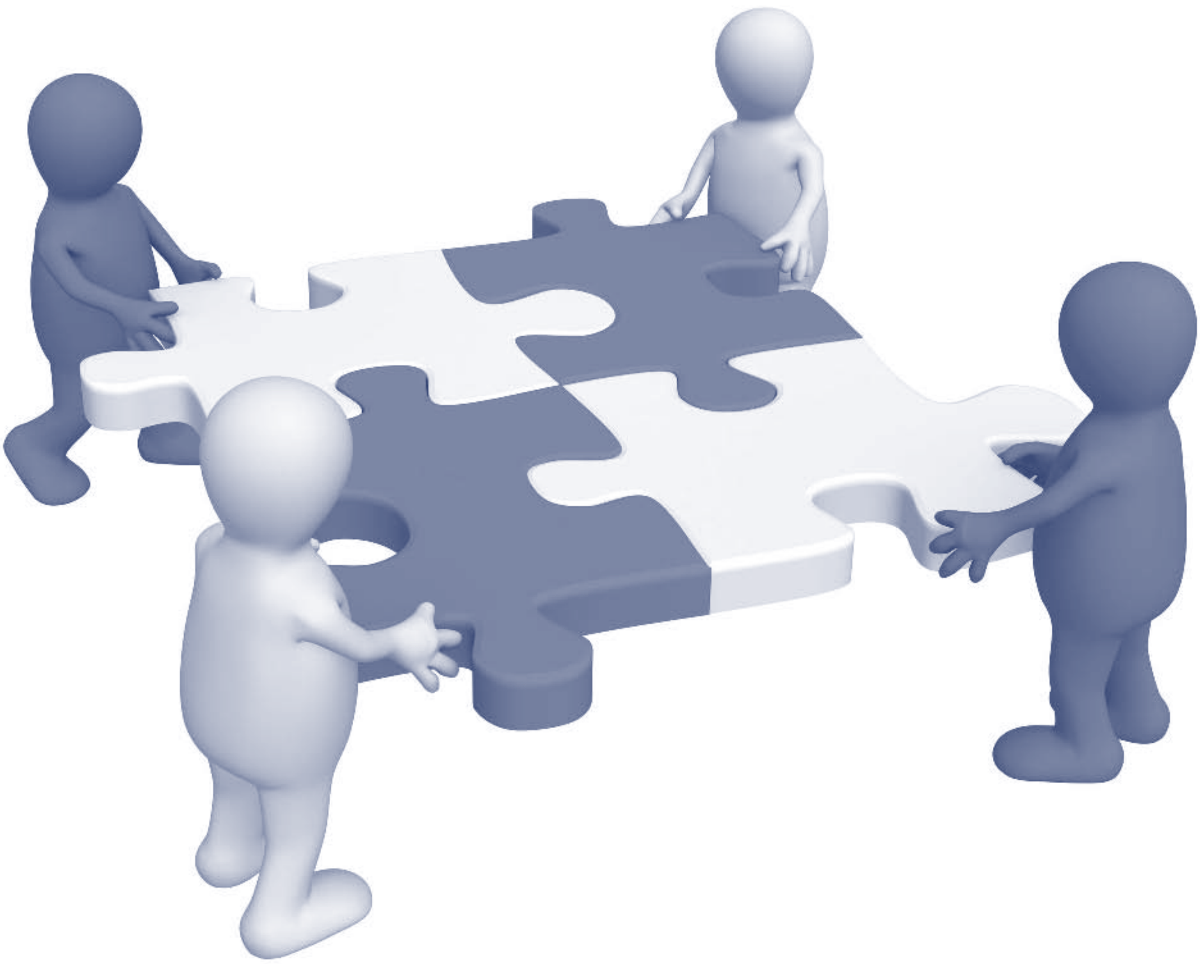
In December 2009, the ECOFIN also reiterated the importance of and its "support for the full realisation" of SEPA, which, in the words of the ECOFIN, aims at achieving "an integrated and competitive internal market for euro payments for the benefit of citizens and businesses". In addition, the ECOFIN expressed its regrets about the fact that almost two years after the successful technical launch of the SEPA Credit Transfer, the percentage of credit transfers in the euro area processed using the new SCT format remains very low and is mostly limited to cross border payments. The ECOFIN "considers it crucial to accelerate the take up of SCT, especially for national euro payments traffic".

According to the SEPA Indicators compiled by the European Central Bank (ECB), the share of SEPA Credit Transfers (SCT) as a percentage of the total volume of credit transfers generated by bank customers amounted to 6.2 per cent in December 2009. The current rate of SEPA market uptake comes as no surprise. SEPA was not started nor is it designed as a demand-driven process. Bank customers did not ask for the introduction of the euro or for current euro payment instruments to be replaced. Existing payment services are generally viewed to be efficient, secure and cheap. SEPA is an EU integration initiative and the progress of roll-out reflects the average timelines required for the implementation of other such major programmes.

However, the data available also clearly indicate that political leadership is required now to ensure successful completion of the process. The SEPA programme is driven forward jointly by the public and the private sectors. The banking industry cooperating in the EPC has delivered its part. The European legislator has put in place the Payment Services Directive (PSD) which establishes the common legal framework required to achieve SEPA. It is now time for the public sector to take the next step. The public authorities that asked for SEPA should create the clarity and incentives needed to facilitate the migration of customers to the new SEPA payment instruments as requested by the ECOFIN. To make it absolutely clear: no end date, no SEPA.

A transformation process of this dimension has to be transparent and predictable. A binding end date established through EU Regulation would provide such predictability.

Any other conclusion would severely misinterpret the situation. It is now up to the political authorities, in particular the national governments represented in the ECOFIN as well as the European Parliament, to make the necessary calls.



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