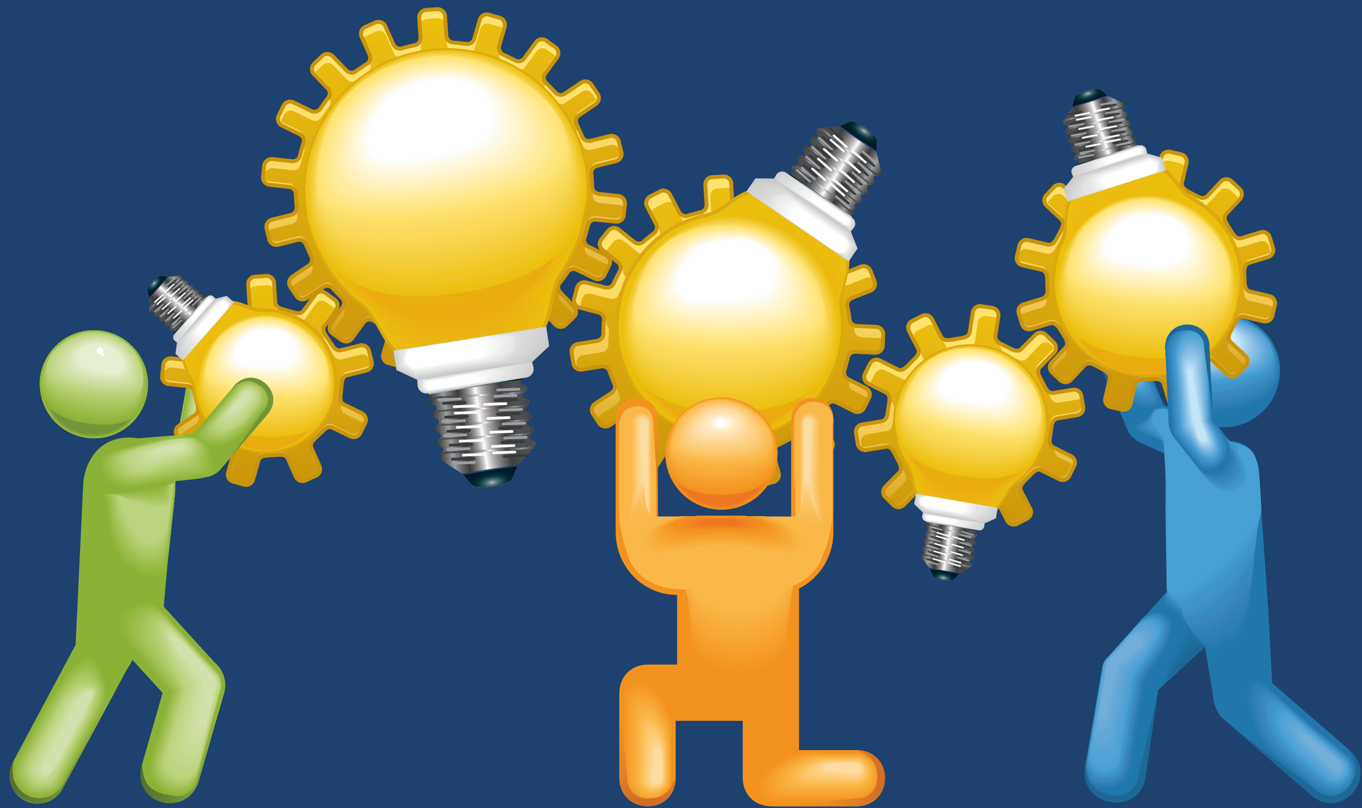
Driving forward the SEPA vision



EPC Annual Activity Report 2010

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European Payments Council

Driving forward the SEPA vision

EPC Annual Activity Report 2010

Take payments to the next level

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1.

Message from the Chairman: The Breakthrough for SEPA?

The scene is set to bring SEPA to its successful conclusion. It is now up to European Union lawmakers to provide planning security to all market participants by setting a clear deadline for migration to the SEPA payment schemes.

Gerard Hartsink, Chairman of the EPC

1.1 The EPC supports and promotes the SEPA vision

The Single Euro Payments Area (SEPA) is a European Union (EU) integration initiative in the area of payments following the introduction of euro notes and coins in 2002. The SEPA vision defined by the European public authorities holds that within SEPA all euro payments will be domestic. Once SEPA is achieved, there should be no differentiation between national and cross-border euro payments. As such, SEPA payment schemes are designed to eventually replace national euro payment schemes for credit transfers and direct debits existing today.

The banks[1] organised in the European Payments Council (EPC) support and promote the SEPA vision. The EPC delivered, among other things, the SEPA payment schemes and frameworks necessary to realise the integration of the euro payments market. The SEPA Credit Transfer (SCT) scheme went live in January 2008. At the end of 2010, some 4500 banks offered SCT services. In November 2009, the EPC launched the SEPA Core Direct Debit scheme (SDD Core) and the SEPA Business to Business Direct Debit scheme (SDD B2B). From 1 November 2010, EU law requires all banks in the euro area to be reachable for cross-border direct debits; i.e. SDD Core. As a result, paying bills becomes significantly easier for European citizens. At the same time, companies are now able to collect payments by SDD across the euro area resulting in many advantages including enhanced business opportunities. At the end of 2010, 3904 payment service providers (PSPs) participate in the SDD Core scheme. Of those, 3374 also offer SDD B2B services.

The migration to the SEPA payment schemes is coordinated by the national SEPA committees in the seventeen euro countries. These committees generally include representatives of the national banking communities, the national central bank, the ministry of finance and, most importantly, customer representatives. In 2010, several EU member states made good progress in transitioning to SEPA.

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

1.2 The principal role of payment service users

Payment service users are an important partner in the process of making SEPA a reality.

All stakeholders are encouraged to liaise with the national SEPA stakeholder forums. The EPC as the scheme manager of the SCT and SDD schemes greatly appreciates the dialogue taking place in the EPC Customer Stakeholders Forum (CSF) established in 2007. The CSF specifically addresses the requirements of payment service users with regard to the SCT and SDD schemes and related standards. CSF members represent a wide cross-section of interest groups acting at the European level including consumers, corporates and small and medium sized enterprises. In light of the fact that the public sector accounts for up to 20 percent or more of electronic payments made in society, the EPC would very much welcome it if a representative acting on behalf of public administrations would join this forum. In the view of the EPC, it is essential that the representatives of public administrations engage in the SEPA process and clearly communicate the SEPA objectives at a national level.

The EPC also invites all stakeholders to participate in the annual change management process governing the evolution of the SCT and SDD schemes. This process provides all stakeholders with the opportunity to introduce suggestions for modifications of the schemes and to take part in the annual three-month public consultation on updates to be incorporated into the scheme rulebooks.

In 2010, the European Central Bank (ECB) together with the European Commission established the SEPA Council. The objective of the SEPA Council, which brings together representatives of both the demand and supply sides of the payments market including the EPC, is to promote the realisation of an integrated euro retail payments market by ensuring proper stakeholder involvement at a high level and by fostering consensus on the next steps towards the full realisation of SEPA. The EPC supports these objectives.

The SEPA Council members attending the inaugural meeting in June 2010 endorsed a formal declaration stressing “their strong support for the establishment of end-date(s) for migration to SEPA Credit Transfers and SEPA Direct Debits by means of legislation at EU level”.

1.3 The EPC carries out an ambitious SEPA cards standardisation programme

The EPC promotes a cards standardisation programme designed to remove technical obstacles preventing a consistent customer experience throughout the SEPA cards market.

In December 2009, the Economic and Financial Affairs Council (ECOFIN – comprising the EU Finance Ministers) called on the industry “to complete its work in relation to the outstanding technical standards required in the cards market by mid 2010, which should be developed in an open and transparent way, allowing full interoperability”[2].

In 2009, the EPC organised the creation of the Cards Stakeholders Group (CSG) together with representatives of five sectors also active in the cards domain including retailers, vendors such as manufacturer of cards, payment devices and related IT systems, processors, card schemes and banks. The CSG progresses the SEPA Cards Standardisation Volume – Book of Requirements, which defines the functional and security requirements as well as an evaluation methodology designed to achieve interoperability based on open and free standards within SEPA. Taking into consideration the feedback received during public consultations, further substantial progress was made in this area in 2010.

2 ECOFIN Conclusions on SEPA (December 2009) available at www.epc-cep.eu / About SEPA.

1.4 Setting a deadline for migration to SEPA through EU regulation

The EPC welcomes the European Commission's willingness to legislate on end dates for migration to SEPA payment schemes. Our understanding throughout the past decade is that this process aims to replace national euro payment schemes with the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) schemes developed by the EPC in close dialogue with the user community.

- In December 2010, the European Commission published a proposal for a regulation establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009 (the 'proposal'). The proposal currently states that credit transfers will have to comply with these technical requirements twelve months after the regulation coming into force; direct debits will have to comply 24 months after entry into force.

- The EPC appreciates that this proposal unequivocally clarifies that "full integration of the payment market will only be achieved once Union-wide payment instruments replace completely the national legacy instruments". The proposal now also clarifies that the end dates to be established for compliance with the technical requirements refer to the point in time when these requirements "need to be fulfilled by Union-wide credit transfers and direct debits". These clarifications in conjunction with several new elements introduced into the proposal address the concerns of the EPC with regard to previous outlines of this regulation. The EPC welcomes that this proposal minimises the risk that existing national schemes for euro credit transfers and direct debits could become compliant with the technical requirements; i.e. a scenario where domestic euro transactions would still be handled by national schemes whilst Union-wide schemes would be used exclusively for cross-border euro transactions.

- The EPC continues to evaluate the possible implications of this proposal on the SEPA Direct Debit business model.

The forthcoming regulation should refrain from mandating 'interoperability' between payment schemes.

- As regards a scenario of multiple Union-wide schemes existing in parallel, the EPC welcomes the fact that the European Commission has taken some positive steps in this final proposal compared to their previous drafts to reduce this risk. More changes, however, are required to ensure a harmonised outcome. The proposal implies a theoretical scenario of multiple Union-wide payment schemes for euro credit transfers and direct debits. The concept of 'interoperability' of multiple Union-wide schemes, however, puts at risk the fundamental requirement of full reachability of all PSPs across SEPA, counters the objective of overcoming the fragmentation of the euro payments market and disregards the principles governing an optimally efficient payment environment. The reference to the 'interoperability' of payment schemes should be deleted from the proposal.

The technical requirements applicable to euro direct debits to be established with the forthcoming regulation should refrain from making mandatory optional features of the SDD schemes.

- Several of the 'technical requirements' applicable to direct debit transactions included in the proposal would make mandatory such features which are optional in the SDD Core scheme or which could be provided as an additional optional service (AOS) by a community of PSPs or by an individual PSP in response to actual market demand. This would make direct debits more costly for all and restrict competition amongst PSPs. The forthcoming regulation should respect the consensus reached among the broad majority of both payment service users and providers on the principles governing the Union-wide direct debit scheme currently in the market; i.e. the SDD Core scheme developed by the EPC.

The EPC invites the legislator to recognise that self-regulation by banks in close dialogue with payment service users has generally proven to be the most efficient means to create and maintain innovative, effective, secure and stress-resistant payment systems.

For regular updates on the EPC work programme refer to the quarterly online EPC Newsletter available at www.epc-cep.eu. Subscription is free.

2.

Executive Summary

The EPC delivers key elements required to achieve SEPA: the highlights 2010.

The European banking industry represented by the EPC supports the SEPA vision and has developed the necessary harmonised payment schemes and frameworks. In 2010, further substantial progress has been achieved in all areas covered by the EPC work programme.

European Payments Council: for information on the role of the EPC in the SEPA process see chapter 3.

SEPA payment scheme development: the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) schemes evolve based on an annual open and predictable change management process, providing all stakeholders with the opportunity to introduce suggestions for changes to the SEPA payment schemes. Proposed changes to the schemes are subject to a three-month public consultation. As a result of this annual change cycle, the SEPA payment schemes incorporate numerous features introduced by end users. The EPC reiterates that self-regulation by banks in close dialogue with payment service users has generally proven to be the most efficient means to create and maintain innovative, effective, secure and stress-resistant payment systems (see chapter 4 on the principles governing SEPA payment scheme development).

SEPA Direct Debit (SDD): In November 2010, the EPC released updated versions of the SDD Core and SDD B2B rulebooks to take effect in November 2011. The limited number of requests for new mandatory and / or optional elements to be introduced into the updated rulebooks released in November 2010 demonstrates the maturity of the schemes and highlights that they are fit for purpose. In accordance with industry best practice, banks and their service providers have sufficient time to address the rulebook updates ahead of November 2011, when these revised rulebooks will come into effect (see chapter 5).

EPC e-Mandates e-Operating Model – the new Certification Authority Supervisory Board: in 2010, the EPC established the Certification Authority Supervisory Board (CASB) which handles applications from certification authorities who wish to become EPC approved in offering e-mandate services under the SDD schemes (see chapter 6).

SEPA Credit Transfer (SCT): in November 2010, the EPC released an updated version of the SCT rulebook to take effect in November 2011. In December 2010, the EPC repealed the Convention for Cross-border Payments in Euros and the Interbank Charging Principles Convention introduced in 2002 and 2003 respectively. Both conventions were declared obsolete as they are based on outdated legislation and have been superseded by a combination of the Payment Services Directive, EU Regulation (EC) No 924/2009 and the EPC's SCT rulebook (see chapter 7).

SEPA implementation guidelines: the realisation of SEPA requires agreement on a common set of data to be exchanged in a common syntax. The SEPA data formats as specified by the EPC for the exchange of SEPA payments represent such a common data set. The SEPA data formats are detailed in the SEPA implementation guidelines released by the EPC. In November 2010, the EPC published updated implementation guidelines together with the new scheme rulebook versions (see chapter 8).

SEPA for cards: in December 2010, the EPC approved version 5.0 of the SEPA Cards Standardisation Volume – Book of Requirements, taking into consideration that chapters 5 (security requirements) and 6 (certification) are subject to further amendments. The Standardisation Volume defines functional and security standards requirements as well as an evaluation methodology designed to achieve interoperability based on open and free standards within SEPA. Also in December 2010, the EPC approved the resolution 'Preventing Card Fraud in a Mature EMV Environment'. This resolution sets the conditions for further increased security of card payments based on the EMV-chip only option and in the area of online payments with cards (see chapter 9).

SEPA for mobile: in 2010, the EPC published the 'White Paper on Mobile Payments'. The white paper highlights the EPC's initiatives for mobile payments in SEPA aimed at facilitating implementation and interoperability of user-friendly mobile payment solutions across the 32 SEPA countries. The EPC and the GSM Association, which represents the worldwide mobile communications industry, released a joint paper titled 'Mobile Contactless Payments Service Management Roles – Requirements and Specifications'. In addition, the EPC reinforced cross-industry cooperation with other players in the emerging mobile payments ecosystem (see chapter 10).

SEPA e-Payment Framework: the SEPA e-Payment Framework facilitates online payments. Throughout 2010, the EPC continued to refine the draft SEPA e-Payment Framework service description reflecting the results of two consultations by the banking community which took place in January and April 2010 (see chapter 11).

Single Euro Cash Area (SECA): the EPC together with the Eurosytem[3] substantially advanced the creation of SECA with the aim to establish a level playing field where basic cash functions performed by each of the national central banks in the euro area are interchangeable. The EPC's cash repositioning strategy contributes to reducing the costs of wholesale cash distribution. The EPC reviewed the European Commission's proposal for a regulation for the professional cross-border road transportation of euro cash; analysed the European Commission's recommendation on scope and effects of euro cash as legal tender; and organised a conference together with other stakeholders to protect euro cash (see chapter 12).

Information security: the EPC, within its scope, aims to establish security requirements, (implementation) guidelines and / or security best practices relating to the payment industry based on relevant international standards, and makes recommendations on minimum collaborative security levels. To this end, the EPC in 2010 published updated guidelines on the use of audit trails in security systems (see chapter 13).

3 The Eurosystem comprises the European Central Bank and the national central banks of those countries that have adopted the euro.

3.

About the European Payments Council

The EPC supports and promotes the creation of SEPA.

The European Payments Council (EPC) is the coordination and decision-making body of the European banking industry in relation to payments. The purpose of the EPC is to support and promote SEPA. The EPC develops the payment schemes and frameworks necessary to realise the integrated euro payments market. In particular, the EPC defines common positions for the cooperative space of payment services, provides strategic guidance for standardisation, formulates rules, best practices and standards, and supports and monitors implementation of decisions taken.

The EPC is responsible, amongst others, for the development and maintenance of SEPA payment schemes as defined in the SEPA Credit Transfer and SEPA Direct Debit rulebooks. The scheme rulebooks contain sets of rules and standards for the execution of SEPA payment transactions that have to be followed by payment service providers (PSPs). The development of payment schemes through self-regulation by banks in close dialogue with customers represents the established approach in all national banking communities – and in SEPA (to learn more about SEPA scheme development refer to chapter 4).

The SEPA payment schemes developed by the EPC have open access criteria in line with Article 28 of the Payment Services Directive (PSD).

The particular payment ***products*** and ***services*** – based on a particular payment ***scheme*** – offered to the customer are developed by individual PSPs operating in a competitive environment. The development of payment products based on the SEPA payment schemes, including all product-related features, is outside the scope of the EPC.

At the end of 2010, the EPC consists of 74 members representing banks, banking communities and payment institutions. More than 360 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 European Central Bank (ECB) acts as an observer in all EPC working and support groups and in the EPC Plenary, the decision-making body of the EPC.

The EPC is a not-for-profit organisation which makes all its deliverables; i.e. the SEPA scheme rulebooks and adjacent documentation, available for download free of charge on the EPC web-site. The EPC is not a supplier of technology or any goods or services.

The SEPA payment schemes and frameworks delivered by the EPC are key elements required to making SEPA a reality. The EPC, however, is not responsible for the overall management of the SEPA process.

For more information refer to the EPC website at www.epc-cep.eu / About EPC.

To get an overview of the main actors driving forward the SEPA vision at a European level, and to learn about their specific responsibilities in the process, refer to the EPC publication '**Shortcut to Who is Who in SEPA**' available at www.epc-cep.eu / SEPA Customers.

4.

SEPA Payment Scheme Development

The SEPA payment schemes developed by the EPC in close dialogue with the user community evolve over time to reflect changes in market needs and updates in standards.

4.1 What is a SEPA payment scheme?

The EPC is responsible, amongst others, for the development and maintenance of SEPA payment schemes as defined in the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) rulebooks. The scheme rulebooks contain sets of rules and standards for the execution of SEPA payment transactions that have to be followed by payment service providers (PSPs). These rulebooks can be regarded as instruction manuals which provide a common understanding on how to move funds from account A to account B within SEPA.

In essence, a SEPA payment scheme can be compared to other frameworks which prescribe standardised processes to be observed by actors operating in network industries: such standardisation – or integration – initiatives enable the provision of services by service providers in a two-sided market also across traditional boundaries (for example, national borders). An example of such integration initiatives are standardised railway tracks allowing a multitude of commercial railway operators to move their trains across borders. Similar examples of standardisation in network industries can be found in the areas of telecommunication, television or radio. In the area of payments, the introduction of the euro can be regarded as a means of standardisation.

The SCT and SDD schemes represent the integration at a European level of the multiple sets of single national payment schemes existing today. Migration to a single set of SEPA payment schemes allows multiple PSPs to offer a broad range of diversified payment services and products for euro credit transfers and euro direct debits SEPA-wide. As a result, customers benefit from increased competition and more choices in the payments market. Standardisation at the scheme level is the very precondition for increased competition and diversity of PSPs at the services and product level.

As mentioned in chapter 3, the particular payment ***products*** and ***services*** – based on a particular payment ***scheme*** – offered to the customer are developed by individual PSPs operating in a competitive environment. PSPs are free to add features and services of their choice to the actual payment products and services in response to customer needs, provided that the product and services respect the rules and standards of the relevant underlying payment scheme. The development of payment products based on the SEPA payment schemes including all product-related features, is outside the scope of the EPC.

The purpose of migrating from a multitude of national euro payment schemes for credit transfers and direct debits to a single set of harmonised SEPA schemes can be compared to implementing standardised ‘railroad tracks’ for the exchange of payments across the European Union.

4.2 The annual SEPA scheme change management cycle

The SEPA payment schemes evolve based on an open and inclusive change management process in close dialogue with the entire payment user community.

The SCT and SDD rulebooks include the 'Scheme Management Internal Rules' which define the change management process applicable to the rulebook[4].

The first step in the annual SEPA scheme change management cycle leading to the publication of updated versions of the scheme rulebooks is the introduction of suggestions for changes to the schemes by any interested party. All stakeholders are invited to submit suggestions for changes to the EPC by the end of February each year.

In consideration of the suggestions received, the EPC SEPA Payment Schemes Working Group (SPS WG) develops a single change request per rulebook. The preparation of the change request involves analysis of the suggestions for changes received, including a cost-benefit analysis, dialogue with the initiator and, if appropriate, market research. Based on this analysis, the SPS WG decides whether to accept a suggestion for change into the change management process or not. Initiators of any suggestions for changes are notified of the decision taken by the SPS WG. All suggestions to modify the rulebooks received by the EPC – irrespective of whether they have been accepted into the change management process – are published on the EPC web-site, permitting such a list to be openly viewed by all stakeholders. The change requests are released for a three-month public consultation in May of each year. Taking into account comments received during the consultation, the SPS WG completes a change proposal for approval by the EPC Plenary in September of each year. Proposed changes to the SEPA schemes that find broad acceptance in the entire user community are incorporated into the new rulebook versions – regardless of whether such a change is proposed by a PSP or customer representatives. Change requests that lack such broad support are not.

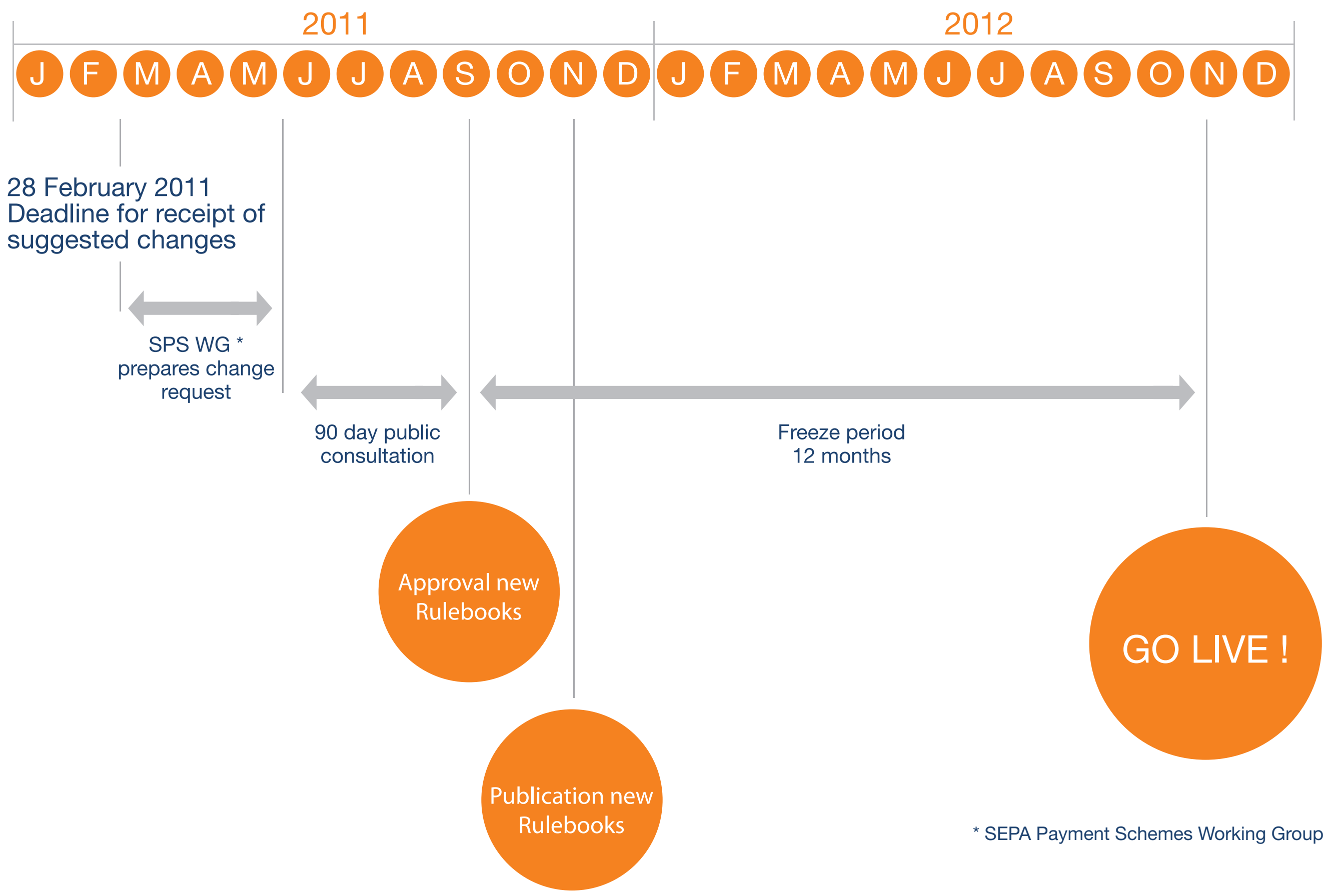
To ensure planning security for all market participants, publication of new scheme rulebook versions follows a predictable release management cycle. In accordance with industry best practice, payment service providers and their suppliers have a one-year lead time to address rulebook updates prior to these updates taking effect.

The EPC publishes updated versions of the rulebooks once annually in November. The updated versions of the rulebooks then take effect in the third week of November of the following year to allow for alignment with SWIFT[5] message releases. As a result of this annual change cycle, the SCT and SDD schemes incorporate numerous features introduced by payment service users.

4 The Scheme Management Internal Rules are available at www.epc-cep.eu / About EPC / Scheme Management. Chapter 3 of these internal rules describes the process of SEPA scheme development.

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

Annual SEPA Scheme Rulebook Change and Release Management Cycle



* SEPA Payment Schemes Working Group

4.3 The EPC Customer Stakeholders Forum

It is critical that the SEPA payment schemes meet market demand, i.e. to clearly identify customer needs. The EPC therefore invites stakeholders to actively engage in the scheme change management process. All stakeholders are encouraged to liaise with SEPA Stakeholder Forums established at a national level.

The EPC greatly appreciates the dialogue taking place in the EPC Customer Stakeholders Forum (CSF) established in 2007. CSF members represent a wide cross-section of interest groups acting at the European level including consumers, corporates and small and medium sized enterprises. The CSF is co-chaired by a representative of the demand side and the EPC Chair. The CSF specifically addresses the requirements of payment service users with regard to the SCT and SDD schemes.

In 2009, the EPC promoted the creation of the Cards Stakeholders Group (CSG) together with representatives of five sectors also active in the cards domain including retailers, vendors – such as manufacturer of card payment devices and related IT systems – processors, card schemes and banks (for details see chapter 9).

4.4 Creating efficiency and meeting demand: self-regulation in a network industry

Banks must distinguish their services and performance to acquire paying customers. It is therefore of vital importance that the SEPA payment schemes developed in the cooperative space (the EPC) enable banks operating in the market to design competitive SEPA products and services that meet the specific needs of payers and payees across all customer segments within and across the 32 SEPA countries.

The individuals engaged in EPC scheme development are full-time payment professionals who interact daily with their local customers and manage payments in the real world. They are committed to the SEPA vision – and to the highly diversified customer base of the banking sectors and national communities on whose behalf they speak in the EPC. Obviously, there are differentiated – and occasionally mutually exclusive – views on SEPA requirements among and within individual customer segments. Hence, the viewpoints of EPC members regarding the ideal design of SEPA payment schemes are as distinct as those of payment service users (the bank customers).

It is a standard EPC exercise to bridge different payment practices and customer expectations throughout the painstaking process of forging agreement on the countless technical and procedural details that make up a European payment scheme.

This requires the ability to differentiate between the needs of particular customer segments in specific national markets on the one hand, and the overall requirements of the broader customer base on the other. The process of scheme development can be compared to designing a car model: the basic model must meet key market requirements. At the same time, the model must be flexible enough to include options to add extras on demand. This concept provides maximum choice to customers while avoiding that the majority of customers has to buy features they do not need.

In an industry body such as the EPC, PSPs representing the payers and PSPs representing the payees each defend their position and strike a balance. With their customers' (payment service users) interests in mind, banks strive to reach an agreement which is acceptable to both parties (payers and payees) and which releases enough efficiency to satisfy their different requirements. This model relies on the specific position of banks as the intermediary whose role it is to find the right point of equilibrium between the two parties; payees and payers. Banks are forced to satisfy both the payers and the payees, their customers. It is a case of supply meeting demand.

Self-regulation by banks in close dialogue with all customer segments ensures an optimally efficient, systemically stable and competitive payments market. This model also incentivises industry to innovate as a result of market pressures.

European integration – in this case, developing harmonised SEPA payment schemes – is only possible if all parties engaged in the process are willing to aim for a solution that caters to the majority of payment service users.

For more information on ongoing scheme change management, refer to www.epc-cep.eu / SEPA Direct Debit or SEPA Credit Transfer and log on to 'consultations'.

5.

SEPA Direct Debit

The SEPA Direct Debit – for the first time ever – enables consumers to make cross-border direct debit payments throughout the 32 SEPA countries. At the same time, the SEPA Direct Debit can be used domestically.

The EPC launched the SEPA Direct Debit Core scheme (SDD Core) and the SEPA Direct Debit Business to Business scheme (SDD B2B) in November 2009. 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 SDD Core scheme enables consumers to know exactly when their account will be debited. The SDD B2B scheme fully supports the intra-European supply chain management of companies on the financial side and facilitates trade across the internal market. At the same time, SDD allows 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, therefore, that invoices are paid when they are due. The SDD is a convenient, secure and efficient means of payment for billers and payers alike.

Information on the principles governing the SDD schemes is also included in this chapter (see sections starting with the headline ***'The SDD Core scheme in a nutshell'***).

5.1 New elements introduced into the SDD rulebooks

In November 2010, the EPC published the SDD Core rulebook version 5.0 and the SDD B2B rulebook version 3.0 together with the adjacent implementation guidelines. These updated versions of the rulebooks and implementation guidelines will take effect on 19 November 2011.

In response to user requests, the new versions of the SDD rulebooks now include an optional element called 'advance mandate information' (AMI). This functionality allows the payer's bank to perform in advance those checks it would otherwise carry out with the first SDD collection and enables the payer's bank to widen its mandate management options allowing, for example, more time for the bank to validate whether a payer authorised a direct debit collection. To learn more about the meaning of this optional functionality, refer to the information in this chapter starting with the section headlined 'The SDD schemes ensure complete consumer protection'.

The updated SDD rulebooks now also include a new code to identify SDD collections which are rejected or returned due to an incorrect 'creditor identifier'. Each biller in SEPA will be identified with such an identifier. This identifier allows the payer and the payer's bank to verify each SDD and to process or reject the direct debit according to the payer's instructions. Billers have to request this identifier according to local practice. In the event that a SDD collection is returned (not paid) by the payer's bank, a return code provides the reason for the return to the biller's bank. Reasons for returning a direct debit are, for example, that there are not enough funds in the payee's account to honour the collection or that the biller gave a wrong account number for the account to be debited. The additional code for rejects and returns of an SDD collection included in the updated SDD rulebooks specifically states that the 'creditor identifier' indicated with the collection is incorrect. This provision of more detailed information on rejects and returns will allow billers to better understand the reason for failed collections.

In addition, the SDD implementation guidelines[6] have been updated to make the 'unique mandate reference' case-insensitive. The 'unique mandate reference'[7] identifies each SDD mandate signed by a payer. As the name suggests, this reference must be unique for each mandate. The fact that the SDD implementation guidelines have been updated to make the 'unique mandate reference' case-insensitive means that an SDD collection will not be rejected just because the mandate reference carries a letter in lower case which might be capitalised in the original mandate (or vice versa). Consequently, it will be easier to manage and validate mandates. This update also avoids unnecessary rejects.

6 For detailed information on the SEPA implementation guidelines see chapter 8.

7 A mandate is signed by the payer to authorise the biller to collect a payment and to instruct the payer's bank to pay those collections. See chapter 5.3 for more details on the SDD mandate.

5.2 Work in progress: the SDD Fixed Amount scheme

The EPC is in the process of developing a new optional SDD Fixed Amount scheme (SDD FA). In September 2010, the EPC resolved that the SDD FA scheme rulebook version 1.0 and adjacent implementation guidelines are approved as ready to be communicated to national banking communities, relevant stakeholders and suppliers. The EPC recognises that adjacent deliverables remain to be completed and appropriately approved prior to opening the adherence process for future scheme participants and setting a launch date for the SDD FA scheme.

The SDD FA scheme will apply the regime defined in the Payment Services Directive (PSD) with regard to refund rights; e.g. the refund right does not apply in cases of authorised transactions when the exact amount of the direct debit collection is agreed between the payer and the biller. This option is contingent upon the payer and the biller having agreed the exact amount and the frequency of collections in the mandate. The mandate to be signed by a payer authorising a biller to collect payments under the SDD FA scheme will clearly highlight the difference to the SDD Core scheme as regards the application of the refund right in case of authorised transactions to avoid misuse of the 'no-refund' feature.

In the event of unauthorised direct debit collections, the payer's right to claim a refund as stipulated in the PSD extends to thirteen months. Naturally, the right to a refund in case of an unauthorised transaction during a period of thirteen months is granted to the payer also under the new optional SDD FA scheme, in full compliance with the PSD. The mandate to be signed under the SDD FA scheme will specify the exact amount of the collection as well as the frequency of the collections. If the biller collects a different amount than the amount stated in the mandate, or if the biller diverts from the frequency of collections agreed in the mandate, the payer can make a claim for a refund citing a case of an unauthorised transaction.

At the end of 2010, the following adjacent deliverables with regard to the SDD FA scheme are in progress:

- A separate mandate is available. Approved translations and a specific set of layout guidelines for a separate SDD FA mandate will be prepared.
- Documentation related to adherence by PSPs to the SDD FA scheme will be addressed once the first version of the rulebook has been approved by the EPC Plenary and open questions regarding the proposed 'code of conduct' (see below) will be resolved. With future approval of the updated adherence documentation, the EPC Plenary will instruct the EPC Scheme Management Committee[8] on the date when to open the SDD FA adherence process and on the launch date of the SDD FA scheme.
- The EPC clarified that the launch of the SDD FA scheme is subject to the development of a 'code of conduct' specifying the type of trade environment adequate for direct debit collections under the new SDD FA scheme. The aim of such a 'code of conduct' is to ensure satisfactory consumer protection. This remains to be developed with the necessary involvement of all relevant market players including representatives of businesses and consumers. The EPC will support the set-up of this guidance in order to have it available as soon as possible. The ownership of this 'Code of Conduct' should be shared with the regulators as well as associations representing consumers, corporates and public administrations. Furthermore, it should be decided which governance model will be used to supervise the correct application of the code of conduct usage guidance.

8 The EPC Scheme Management Committee (SMC), amongst others, administers and approves adherence applications of payment service providers wishing to participate in the SEPA schemes. For more information visit www.epc-cep.eu / About EPC / Scheme Management.

5.3 The SDD Core scheme in a nutshell

The SDD Core 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'.

The payer and the biller[9] must each hold an account with a payment service provider (PSP) located in SEPA. The accounts may be in euro or in any other SEPA currency. The transfer of funds (money) between the payer's bank and the biller's bank always takes place in the euro currency.

The SDD Core scheme allows a biller to collect funds from a payer's account provided that a signed mandate has been granted by the payer to the biller. A mandate is signed by the payer to authorise the biller to collect a payment and to instruct the payer's bank to pay those collections. Payers are entitled to instruct their banks not to accept any SDD collections on their accounts. The mandate can be issued in paper form or electronically. The mandate expires 36 months after the last initiated collection. The signed mandate must be stored by the biller as long as the mandate is valid but at least for 14 months after the last collection.

The PSPs executing the direct debit transaction must formally participate in the SDD scheme. The SDD scheme may be used for single (one-off) or recurrent direct debit collections, the amounts are not limited. Even exceeding the requirements of the PSD, the SDD Core scheme grants payers a 'no-questions-asked' refund right during the eight weeks following the debiting of a payer's account; e.g. during this time any funds collected by SDD Core will be credited back to the payer's account upon request. In the event of unauthorised direct debit collections, the payer's right to a refund extends to 13 months as stipulated in the PSD.

Keeping in mind that the process of collecting a payment by direct debit is initiated by the biller, the biller (and, in consequence, the biller's bank) must respect the following timelines under the SDD Core scheme: the payer's bank must receive the request for a first direct debit collection, or for a one-off direct debit collection, at least five business days prior to the due date. For subsequent direct debit collections, the payer's bank must receive such a request at the latest two business days prior to the due date.

9 The technical terms used in the SDD rulebooks refer to the payer as 'debtor' and to the biller as 'creditor'.

5.4 Main differences between SDD Core and SDD B2B

The SDD B2B scheme enables business customers in the role of payers to make payments by direct debit. The most important differences between the SDD Core scheme and the SDD B2B scheme are:

- Services and products based on the SDD B2B scheme are only available to businesses; the payer must not be a private individual (consumer).
- In the SDD B2B scheme the payer (a business) is not entitled to obtain a refund of an authorised transaction.
- The SDD B2B scheme requires the payer's bank to ensure that the collection is authorised by checking the collection against mandate information; the payer's bank and the payer are required to agree on the verification to be performed for each SDD B2B direct debit.
- Responding to the specific needs of the business community the SDD B2B scheme offers a significantly shorter timeline for presenting direct debits and a reduced return period.

The SDD B2B rulebook includes the option to provide signatures of several persons with a SEPA mandate issued electronically. In the event of an electronic mandate with multiple signatures being issued, the SDD B2B scheme extends the timeline allowed for the payer's bank to verify the authenticity of such a mandate. This option responds to the fact that in the business environment a payment often has to be authorised by more than one person.

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

While the SDD schemes build on this national, pre-SEPA direct debit model implemented in a large number of EU member states today (the 'creditor-driven mandate flow'), it is recognised that some EU member states use an alternate pre-SEPA direct debit model.

This alternate model is based on a 'debtor-driven mandate flow' (the debtor is the payer – a consumer, for example). This means that the biller informs the payer's bank that the payer has requested to make payments by direct debit. The payer's bank then informs the payer and issues the actual mandate. In this model, the mandate stays with the payer's bank. When a biller presents a direct debit collection to the payer's bank, the payer's bank might choose to check the authorisation of the biller to collect payment based on the mandate. For example, this model is used today in Belgium, Portugal, Italy[10] and France. Out of the total 17,656 direct debits processed in the euro area in 2008, according to the ECB Blue Book a total of 4,322 million or 24.48 percent were processed in Belgium (260 million), Italy (576 million), Portugal (221 million) and France (3,265 million).

The main difference between these two alternate direct debit models is in the expectation of the consumer. A consumer used to the 'debtor-driven mandate flow' assumes that his bank verifies whether he has authorised a direct debit collection prior to debiting his account[11]. Those consumers who are used to the 'creditor-driven mandate flow', by contrast, do not require such verification. As mentioned above, the vast majority of consumers in the EU who make a direct debit payment today rely on the 'creditor-driven mandate flow'; which is the model governing the SDD schemes.

In the EU today, the ratio of direct debits based on the 'creditor-driven mandate flow' (the SEPA Direct Debit model) to those based on the 'debtor-driven mandate flow' is 3:1.

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

11 In the Italian domestic direct debit scheme, all payers (debtors) and billers (creditors) can rely on the fact that the payer's bank and the biller's bank check the mandate prior to the first collection, independently of the mandate management model. This is possible thanks to a database alignment service enabling billers to exchange electronically the information related to the mandate, before the collection, through the biller's bank with the payer's bank.

5.6 The SDD schemes cater to all payment service users

The SDD Core scheme already includes various optional features which allow banks to offer services such as the verification of mandates by the payer's bank.

These optional features help in meeting the preferences of consumers living in countries currently using the 'debtor-driven mandate flow'. As each SDD mandate is identifiable based on the 'unique mandate reference' and the 'creditor identifier', each SDD collection can be traced back – immediately and unmistakably – to the biller. As a result, any biller collecting SDDs can be rapidly and unequivocally identified. Any gains based on a fraudulent direct debit collection would therefore not be sustainable. For these reasons, it is highly improbable that fraudulent individuals or businesses would choose SDD as a vehicle for fraudulent actions.

As mentioned above, the SDD Core scheme goes beyond the requirements of the PSD, by granting consumers a 'no-questions-asked' refund right during the eight weeks following the debiting of a consumer's account. This means that during this time any funds collected by SDD will be credited back to the consumer's account upon request. In the event of unauthorised direct debit collections, the consumer's right to a refund extends to thirteen months as stipulated in the PSD.

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

The risk of any fraudulent or erroneous SDD collections is actually born by the biller's bank – never by the payer. The actual mitigation of these risks is based on the intervention of the payer's bank.

The European Commission and the ECB confirmed that the SDD scheme is based ***"on proven national concepts, fully meets the respective legal requirements and – in some points – goes even further than required by the Payment Services Directive in order to better satisfy customer needs"***[12]. Both institutions also encouraged the EPC to give due consideration to the provision of additional features designed to further increase the trust in SDD services in particular by consumers used to the 'debtor-driven mandate flow'. The SDD schemes, as outlined above, include these optional features – such as the optional element called 'advance mandate information' (AMI) introduced into the SDD rulebooks published in November 2010.

See the next chapter to learn more about the **SDD e-mandate option** which also caters to the expectations of consumers used to the 'debtor-driven mandate flow' today.

12 Joint letter of the European Commission and the ECB to the EPC in March 2010.

For more information on the
SDD schemes refer to the EPC website
at www.epc-cep.eu / SEPA Direct Debit.

6.

EPC e-Mandates e-Operating Model: the new Certification Authority Supervisory Board

The SDD e-mandate option illustrates the principle governing SEPA scheme design: the schemes meet the requirements of a broad customer base while including the possibility to add extras on demand.

The option to issue an electronic mandate (e-mandate) in the SEPA Direct Debit (SDD) schemes provides an additional means of authorising direct debit collections. The e-mandate option is compatible with the 'creditor-driven mandate flow'; i.e. a direct debit model which relies on a mandate issued by a payer to be sent directly to the biller. At the same time, the e-mandate option enables payers' banks to emulate services for payers that are accustomed to the 'debtor-driven mandate flow'; i.e. a pre-SDD model which relies on the payer's bank to issue the mandate (to learn more about the SDD mandate including different mandate management models existing in the pre-SEPA euro payment market, see chapter 5.5). The SDD e-mandate solution is based on secure, widely used online banking services made available as an optional service offered by banks to their customers.

In 2010, the EPC established the Certification Authority Supervisory Board (CASB) which will handle applications from certification authorities (CA) who wish to become EPC approved in offering e-mandate services. To understand the role of the CASB it is necessary to briefly explain the e-mandate process and the security architecture of the EPC e-Mandates e-Operating Model.

6.1 The e-mandate process: this is how it works

Banks offering SDD services may choose to act as a payer's bank or as a biller's bank or in both roles when offering e-mandate related services. Billers are free to use this process when offered by the biller's bank. Payers making payments by SDD are free to use this process provided that the e-mandate option is supported by their bank, the biller and biller's bank involved in the e-mandate to be issued. Typically, issuing an e-mandate takes place in the following manner: a payer such as a consumer, for example, chooses to purchase goods or services from a service provider, i.e. a utility company. The service provider; e.g. the biller, offers the payer the option to pay by SDD and to authorise the collection(s) based on an electronic mandate. In a first step, the payer must enter all the required data including the Business Identifier Code (BIC) of his own bank on the biller's website. The biller then submits the e-mandate proposal to the payer's bank.

At the same time, the payer is routed from the biller's website to the website of his own bank. The payer's bank validates the BIC and the payer chooses the International Bank Account Number (IBAN) of the account that shall be debited. In addition, the payer's bank verifies the payer's account access rights: the payer must identify and authenticate himself with his online banking credentials as agreed with his bank. After successful authentication, the payer confirms the e-mandate to his own bank. This last step of confirming the e-mandate is essentially equivalent to the signing of a paper-based mandate. The payer is then routed back to the biller's website. In addition, the payer's bank delivers the 'signed' e-mandate to the biller. The biller's website acknowledges the receipt of the e-mandate and confirms this to the payer. Moving on, biller and payer exchange goods or services and payments as agreed.

6.2 The EPC e-Mandates e-Operating Model

The payer's bank validates the e-mandates issued by a payer wishing to make payments by SDD either itself or through a validation service provider acting on behalf of the payer's bank. The routing service necessary to facilitate the communication between all parties involved in the process is supplied to the biller by the biller's bank or by one or more routing service provider(s) acting on behalf of the biller's bank. The biller and his bank should have an agreement on the conditions for use of routing service(s).

The messages sent from the biller via the routing service to the validation service of the payer's bank are routed via open networks by making use of the Internet. In order to make this message exchange reliable and secure, the EPC has defined a standard for this messaging which is called the EPC e-Mandates e-Operating Model.

This is a high-level definition describing message flows, a data model and general requirements as regards the solution itself and the parties executing it. In addition, the detailed specifications of the EPC e-Mandates e-Operating Model facilitate consistent implementation of the e-mandate feature by the parties involved in the process. Last but not least, the EPC e-Mandates e-Operating Model establishes a secure environment based on defined security requirements. The messages exchanged via the EPC e-Mandates e-Operating Model must be compliant with the ISO 20022 standards[13] set out in the e-Mandate-Service Implementation Guidelines for the SDD Core scheme and the SDD B2B scheme, respectively.

13 To learn more about the ISO 20022 message standards refer to chapter 8.

6.3 Requirements to be met by EPC approved Certification Authorities

The EPC approved Certification Authorities provide a common trust (and hence liability) model enabling secure message flows between the validation service providers and the routing service providers facilitating the e-mandate service.

It is the role of the EPC approved CAs to securely qualify legitimate validation service providers and routing service providers. The CAs will issue certificates to validation service providers and routing service providers that meet the requirements of the EPC e-Mandates e-Operating Model. Thanks to the CAs there is no need for the parties involved in the e-mandate process flow to establish bilateral agreements.

The EPC will allow any CA approved by the EPC according to a dedicated approval process, based on well accepted international standards, to provide certificates to validation service providers and routing service providers. The public key certificates identifying EPC approved CAs for e-mandate services are published in a so called Trust-Service Status List (TSL) for e-mandate services. The EPC has contracted a trust body to establish and publish the TSL on the EPC website.

Any CA that wants to get EPC approval can submit its registration request to the EPC with indication of its auditor. If the auditor is not yet recognised by the EPC, the auditor must be approved by the EPC according to the requirements outlined in the EPC document ‘Approval Scheme for EPC Approved CAs’ (this document can be accessed on the EPC website following the link below). If the registration application is accepted by EPC, the candidate CA will sign an agreement with the EPC, clarifying the liabilities between the EPC and the applicant CA. The auditor prepares an audit report for the CA confirming that the examination was conducted in accordance with the standards and specifications published by the EPC, and the CA submits the report to the EPC. If the report is satisfactory, the EPC will approve the applicant CA, which will then finalise an agreement with the EPC on the terms and conditions of the EPC approved CA mark. Once the EPC has granted approval, the CA will be published in the list of ‘EPC-approved CA for e-Mandates’ on the EPC web site and included in the TSL of EPC approved CAs.

For more information on the CASB refer to the EPC website at www.epc-cep.eu / SEPA Direct Debit / EPC Approval of Certification Authorities.

7.

SEPA Credit Transfer

The EPC released version 5.0 of the SEPA Credit Transfer (SCT) rulebook in November 2010 to take effect in November 2011. In December 2010, the EPC repealed the Convention for Cross-border Payments in Euros and the Interbank Charging Principles (ICP) Convention.

7.1 The SCT scheme in a nutshell

The EPC launched the SCT scheme in January 2008. The SCT scheme enables PSPs 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 the 32 SEPA countries. The payment service providers (PSPs) executing the credit transfer must formally participate in the SCT scheme. There is in principle no cap on the amount of funds that can be transferred under the scheme[14].

7.2 New elements introduced into the SCT rulebook

In November 2010, the EPC published the SCT Rulebook version 5.0 and adjacent implementation guidelines. This updated version of the rulebook and adjacent implementation guidelines will take effect on 19 November 2011. Version 5.0 of the SCT rulebook includes the following new mandatory elements:

Firstly, the attribute describing the purpose of the credit transfer has to be forwarded to the payee when it has been provided by the payer[15]. While the SCT scheme already previously allowed the identification of a payment through specific data fields which clearly indicate payment types (salaries or taxes, for example), from November 2011 onwards, banks participating in the SCT scheme will be obliged to forward this information to the beneficiary (payee), if available.

Secondly, a new value has been added to indicate whether the initiator of an SCT transaction recall was the payer or the payer's bank. The SCT scheme previously allowed PSPs to request a recall of duplicate or erroneous SCT transactions; the SCT rulebook version 5.0 enables the payee's bank to decide whether the payee needs to be contacted to obtain authorisation to return the funds received erroneously. If the recall was initiated by the payer, then the payee's bank must obtain authorisation from the payee to debit their account in order to return the SCT payment (subject to local regulation). This new mandatory element responds to legal requirements that exist in some SEPA communities.

In addition to the introduction of these two new mandatory elements, the SCT rulebook version 5.0 references a standard to structure the remittance information. The SCT scheme standardises 140 characters of remittance information that are delivered without alteration or omission from the payer to the payee. These 140 characters can be unstructured (free text) or structured, as agreed between business partners. Version 5.0 of the SCT rulebook, however, additionally references a standard developed by the European Association of Corporate Treasurers (EACT), which allows companies to agree on a structure for remittance information facilitating reconciliation of incoming payments with outstanding invoices.

For more information on this EACT standard, visit http://www.corporatesepa.com/home.html.

14 In line with the Payment Services Directive (PSD), funds in the amount of up to 999,999,999.99 euro (one billion euro minus one euro cent) can be transferred in a single SCT transaction.

15 The technical terms used in the SCT scheme rulebook refer to the payer as 'originator' and to the payee as 'beneficiary'.

7.3 The EPC repeals the Convention for Cross-border Payments in Euros and the ICP Convention

In December 2010, the EPC resolved that the Convention for Cross-Border Payments in Euros and the ICP Convention are declared obsolete as they are based on outdated legislation and have been superseded by a combination of the Payment Services Directive, Regulation (EC) No 924/2009 and the SEPA Credit Transfer rulebook.

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

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

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

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

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

- Sender and beneficiary of such basic cross-border euro payment to only be responsible for the fees of their own bank.
- Intermediary bank charging principle: no deduction from the principal amount.
- The MT102+/MT103+ SWIFT[16] messages to be considered as the appropriate payment message standards for EU regulation-compliant basic cross-border credit transfers in euros.

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

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

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

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

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

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

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

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

For more information on the SCT scheme refer to the EPC website at www.epc-cep.eu / SEPA Credit Transfer.

8.

SEPA
Implementation Guidelines

The straight-through-processing (STP) of billions of electronic SEPA payments requires standardised implementation guidelines based on the SEPA data formats.

In the world of payments processing, the role of the data format used to exchange information between banks can be compared to the role of language in communication between people. In the pre-SEPA euro payment market, dozens of different data formats are in place to process payments across different national and European clearing systems in the EU. The realisation of SEPA therefore requires agreement on a common set of data to be exchanged in a common syntax. The SEPA data formats as specified by the EPC for the exchange of SEPA payments like direct debits and credit transfers represent such a common data set. The SEPA data formats are detailed in the SEPA implementation guidelines released by the EPC.

Information on the principles governing the SEPA data formats is also included in this chapter (see sections starting with the headline 'The ISO 20022 message standards' below).

8.1 New elements introduced into the SEPA implementation guidelines

In November 2010, the EPC published the SEPA Direct Debit (SDD) Core rulebook version 5.0, the SDD Business to Business (B2B) rulebook version 3.0 and the SEPA Credit Transfer (SCT) rulebook version 5.0. The adjacent implementation guidelines were updated to reflect new mandatory and optional elements introduced into the rulebooks as outlined in chapter 6 (SEPA Direct Debit, see section 6.1) and chapter 8 (SEPA Credit Transfer, see section 8.1) above. These updated versions of the rulebooks and implementation guidelines will take effect on 19 November 2011.

8.2 The ISO 20022 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 message standards (see www.iso20022.org). ISO, the International Organization for Standardization, is the world's developer of global standards. ISO combines the expertise of representatives from all sectors and therefore provides any stakeholder group with 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. 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. Thus, they may need to define their 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.

8.3 Straight-through-processing of SEPA transactions end-to-end

- Bank-to-bank communication: the role of the EPC in defining the SEPA data formats therefore consists in identifying all necessary data elements for making SEPA payments as defined in the SEPA scheme rulebooks within the global standard. These 'core' data elements are indicated by yellow shading in the SEPA implementation guidelines released by the EPC with respect to the SCT and SDD schemes. To allow communities of banks participating in the SEPA schemes to provide additional optional services (AOS)[17] based on the schemes, the EPC has also identified data elements within the global standard that can be used for this purpose. These data elements are indicated by white shading in the SEPA implementation guidelines. The SEPA data formats are binding for the exchange of SEPA payments between scheme participants (payment service providers offering SEPA services that have formally adhered to the SEPA payment schemes developed by the EPC).

- Customer-to-bank communication: the EPC also 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. The EPC therefore makes available SEPA implementation guidelines applying to the customer-to-bank messages. Such guidelines based on the SEPA data formats are available with respect to the SCT and SDD 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.

- 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[18].

17 The SCT rulebook and the SDD rulebooks released by the EPC provide detailed information on additional optional services. The rulebooks are available at www.epc-cep.eu.

18 It should be noted that the proposal for a regulation of the European Parliament and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009 published by the European Commission on 16 December envisages mandatory use of the ISO 20022 message standards in the customer-to-bank space.

- **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. To encourage STP of SEPA transactions along the entire payment processing chain, the EPC developed recommendations on how to map SCT and SDD rulebook requirements to payments reporting from banks to customers. 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 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. In consequence, 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[19]. The EPC strongly recommends that banks offering services based on the SEPA schemes follow the EPC recommendations on customer reporting.

The latest versions of the SEPA implementation guidelines and the EPC recommendations on customer reporting are available at www.epc-cep.eu (see 'SEPA Credit Transfer' and 'SEPA Direct Debit' on upper navigation bar).

19 See www.iso20022.org.

9.

SEPA for Cards

The EPC's activities in the area of cards are aimed at setting the conditions for a better, safer, more cost efficient and richer card services and product offer, whatever the card product or scheme may be. It is up to card schemes and banks to take advantage of these improved conditions to the benefit of all stakeholders.

In December 2010, the EPC approved version 5.0 of the SEPA Cards Standardisation Volume – Book of Requirements (BoR) taking into consideration that chapters 5 (security requirements) and 6 (certification) are subject to further amendments. The Standardisation Volume – BoR defines functional and security standards requirements as well as an evaluation methodology designed to achieve interoperability based on open and free standards within SEPA.

Also in December 2010, the EPC approved the resolution 'Preventing Card Fraud in a Mature EMV Environment'. This resolution sets the conditions for further increased security of card payments based on the EMV chip only option and in the area of online payments with cards.

Both documents, together with the SEPA Cards Framework, are key deliverables of the EPC designed to promote the creation of a SEPA for cards.

9.1 A brief overview of EPC deliverables in the area of cards

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

The objectives of a SEPA for cards will be achieved to the greatest extent possible through the use of open and free standards available to all parties within the card payment value chain. The EPC is carrying out a cards standardisation programme designed to remove technical obstacles preventing a consistent customer experience throughout the SEPA cards market and to allow a higher process efficiency along the overall card chain.

Last but certainly not least, card fraud prevention is a top priority of the EPC. The EPC Card Fraud Prevention Task Force was established in 2003, and from the very beginning included non-bank stakeholders. It was also at this time that the EPC committed to migrate all SEPA cards and terminals to chip and PIN (personal identification number) based on the global EMV standards by the end of 2010[20]. Nearing the completion of this migration, the EPC Card Fraud Prevention Task Force now focuses on identifying and promoting measures to fight card fraud in a mature chip and PIN environment.

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

9.2 The Cards Stakeholders Group

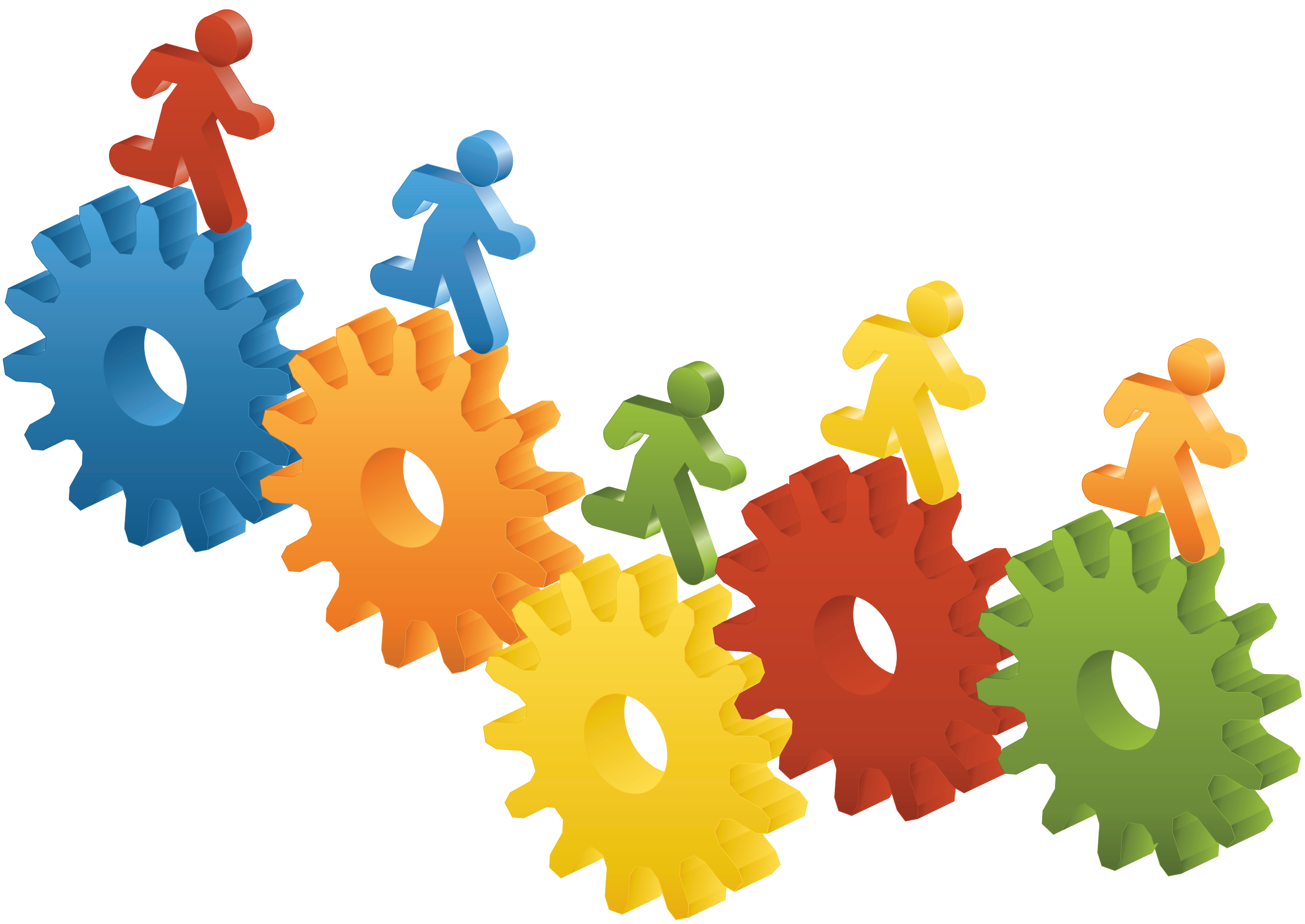
In 2009, the EPC promoted the creation of the Cards Stakeholders Group (CSG) together with representatives of five sectors also active in the cards domain including retailers, vendors – such as manufacturer of card payment devices and related IT systems – processors, card schemes and banks.

Creating this body makes it possible to pinpoint the expectations of a broad range of stakeholders while ensuring a strong co-management in the process of identifying standards requirements and implementation best practices that will promote interoperability in the SEPA cards market. The CSG develops the SEPA Cards Standardisation Volume - BoR which defines the functional and security standards requirements, as well as an evaluation methodology designed to achieve interoperability based on open and free standards within SEPA.

9.3 The SEPA Cards Standardisation Volume – Book of Requirements

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

- Chapter 3: new references to EMV and mobile payments related documentation and several new definitions have been added to this section: ‘acceptance environments’, ‘attended environments’, ‘unattended non PIN environments’ and ‘acceptance environments for remote transactions’.
- Chapter 4 (functional scope and requirements) now includes additional functional requirements applicable to transactions initiated by a card such as ‘cards services’, ‘acceptance technologies’, ‘acceptance environments’ and ‘cardholder verification methods’. In scope are now ATM cash withdrawal transactions, ‘chip contactless EMV based’ technologies, ‘contactless with mobile’ technologies, ‘unattended non PIN acceptance environment’ and the usage of ‘mobile code for card authentication’.
- Chapter 5 (security requirements) has been updated to cover both cards and terminal requirements, however, this chapter is subject to further consultation in 2011.
- Chapter 6 (certification) remains unchanged compared to version 4.0 of the Standardisation Volume – BoR published in December 2009. The future version of chapter 6 will reflect the results of the ongoing discussions between the EPC and the Common Approval Scheme (CAS) initiative, on the adoption of a European Certification framework and the set up of the SEPA Certification Management Body.



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

In December 2010, the EPC also approved the resolution ‘Preventing Card Fraud in a Mature EMV Environment’. At the end of the third quarter of 2010, EMV compliance was 79 percent for cards, 95 percent for points of sale (POS) and 95 percent for ATMs. The following trends can be observed in the mature chip and PIN environment:

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

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

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

For a detailed report on the measures set out in the EPC resolution ‘Preventing Card Fraud in a Mature EMV Environment’ refer to the article ‘Work in Progress’ in the EPC Newsletter, issue 9 (January 2011) available at www.epc-cep.eu / Newsletter / Archives.

For more information refer to the EPC website at www.epc-cep.eu / SEPA Cards.

10.

SEPA for Mobile

Given the proliferation of mobile phones and related rich service levels throughout the European Union, the mobile channel is the ideal launch pad for SEPA payment instruments.

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 for the multiple stakeholders active in the field. 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.

Many consumers are already using mobile phones for services beyond the traditional voice calls and short messaging services due to the introduction of packaged offers, including internet access provided by the mobile network operators. As a result, consumer expectations with regard to mobile phone functionality have increased dramatically, with many users eager to embrace new service solutions based on this delivery platform, such as payments. The availability of practical SEPA mobile payments, either account or card-based, would provide a realistic alternative to cash and cheques.

At the same time, merchants demand that new technology translates into cost savings, increased business volume and reduced exposure to security threats such as cash thefts or illicit payments, as well as enhanced marketing opportunities and brand recognition. Mobile phone initiated payments, in particular those using the contactless approach, are very well positioned to generate these benefits for merchants and other stakeholders who are directly providing services to consumers.

10.1 EPC White Paper on Mobile Payments

In July 2010, the EPC published its 'White Paper on Mobile Payments'. The white paper highlights the EPC's initiatives for mobile payments in SEPA designed to facilitate implementation and interoperability of user-friendly mobile payment solutions across the 32 SEPA countries. The white paper explores how mobile payment services can be delivered through cooperation between service providers active in the banking industry and the new players emerging in the mobile ecosystem.

The EPC 'White Paper on Mobile Payments' offers an informative read to any party interested in mobile payments, and aims to foster a common understanding between payment service providers and bank customers by using non-technical language. The document predominantly focuses on mobile contactless card payments, where the mobile device needs to be in close proximity to a point-of-sale terminal, while also addressing some aspects of mobile remote payments, where two parties are able to send and receive funds irrespective of where they are located.

The paper responds to changing customer requirements in the payments market and demonstrates how mobile payments can increase efficiency, effectiveness and convenience. This paper creates awareness on how to best combine the benefits of state-of-the art SEPA payment instruments for credit transfers, direct debits and card payments handled through one of the most popular and versatile devices introduced in the past two decades – the mobile phone.

10.2 Trusted service management specifications for mobile contactless payments

In October 2010, the EPC and the GSM Association (GSMA), which represents the worldwide mobile communications industry, published a joint paper titled 'Mobile Contactless Payments Service Management Roles – Requirements and Specifications'. The paper describes the provision and lifecycle management – including distribution, configuration, activation, maintenance and deletion – of banks' mobile contactless payment applications when integrated with a mobile phone. It also outlines the role of the 'trusted service manager' (TSM), which is to support banks and mobile operators aiming to promote mobile contactless payments. The paper closes an existing gap in the new near field communication (NFC)[21] ecosystem; its release followed a public consultation period, during which market feedback was received and carefully considered. It defines a minimum set of requirements for a TSM to interface with banks and mobile operators. TSMs 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' NFC handsets.

The EPC and GSMA anticipate that this joint project will boost commercial relationships between issuing banks, the mobile network operators and TSMs, resulting in the expedited deployment of mobile contactless payments in SEPA and around the world. In addition, the agreement on TSM specifications allows interested parties to develop services in the role of a TSM.

21 NFC: contactless technology that enables data to be transmitted wirelessly over very short distances.

10.3 Cross-industry cooperation

Building a common architecture for mobile SEPA payments requires cross-industry cooperation. The EPC therefore seeks to coordinate efforts and work streams, where appropriate, with other players active in the mobile ecosystem. In addition to the cooperation with GSMA, the EPC is actively collaborating with Mobey Forum and GlobalPlatform.

In 2010, the EPC and Mobey Forum, the global cross-industry consortium whose mission is to create the mobile financial services ecosystem and to enable banks to offer mobile financial services, signed a cooperation agreement with the objective to support the uptake of mobile payments across SEPA. Specifically, this cooperation seeks to ensure the definition of compelling mobile payment use cases based on industry input and to improve interoperability between mobile payment solutions in the market.

The EPC and Mobey Forum aim to develop remote mobile payments use(r) cases and service descriptions with a view to:

- Leveraging both organisations' resources and competence;
- Fostering cross-industry coordination and consensus;
- Delivering content contributions to further inform the different stakeholder communities about the potential of the mobile channel for remote payments and related services as well as business opportunities.

In addition, the EPC is addressing the usage of multiple types of secure element (SE), a tamper-resistant hardware module located within a mobile device, which is required to securely facilitate mobile financial services, such as contactless payments using NFC. This subject is likewise explored by Mobey Forum.

Also in 2010, a Memorandum of Understanding (MoU) was agreed between the EPC and GlobalPlatform, the organisation which standardises the management of applications on secure chip technology, to coordinate work initiatives within the mobile contactless environment. The liaison between the EPC and GlobalPlatform should ensure that the mobile contactless technical specifications and use cases of each organisation are compatible as far as possible and meet pre-defined common requirements for mobile payments. Synchronising activities minimises duplication of effort, provides access to member-only work priorities, and capitalises on the impressive wealth of market and technical expertise available across both parties.

For more information refer to the EPC website at www.epc-cep.eu / SEPA Mobile.

11.

SEPA e-Payment Framework

(The SEPA e-Payment Framework provides a convenient and secure means of making payments online. As such, the framework contributes to achieving a single market for e-commerce.)

In response to the rapidly increasing volumes of e-commerce payment transactions, the EPC committed to develop the SEPA e-Payment Framework. The SEPA e-Payment Framework facilitates online payments with an e-payment guarantee for web retailers followed by a SEPA Credit Transfer (SCT). The SEPA e-Payment Framework is not a code of conduct for web merchants on how they should deliver goods and services in time at the appropriate level of quality to consumers. The commercial relations between buyers and sellers of goods and services are not a part of the framework.

Throughout 2010, the EPC continued to refine the draft SEPA e-Payment Framework service description reflecting the results of two consultations of the banking community which took place in January and April 2010.

The SEPA e-Payment Framework is designed to support the e-payment schemes existing in the market already today that could migrate from a national environment to a SEPA environment. E-payment schemes make it possible for banks to deliver payments to their customers which allow online buyers to have euro payments debited from their own current account. The e-payment schemes existing today, however, only work within national borders. An e-payment scheme compliant with the SEPA e-Payment Framework would enable a buyer using the Internet to visit the web shop of an online merchant regardless where he is located in SEPA, and to pay the merchant using both his own Internet banking services and his current bank account[22]. The EPC has defined minimum criteria, including legal and security aspects, which would have to be met by an e-payment scheme in order to be 'SEPA-compliant'.

To achieve interoperability between e-payment schemes, it is necessary that these e-payment schemes adopt the common business and compliance requirements as well as the technical and other aspects defined in the framework.

Firstly, the e-payment guarantee is considered to be an essential element of the framework. This binding commitment is handled by each e-payment scheme owner, modifying the contract it has with its participating banks to bind the bank to honouring any guarantee that it issues.

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

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

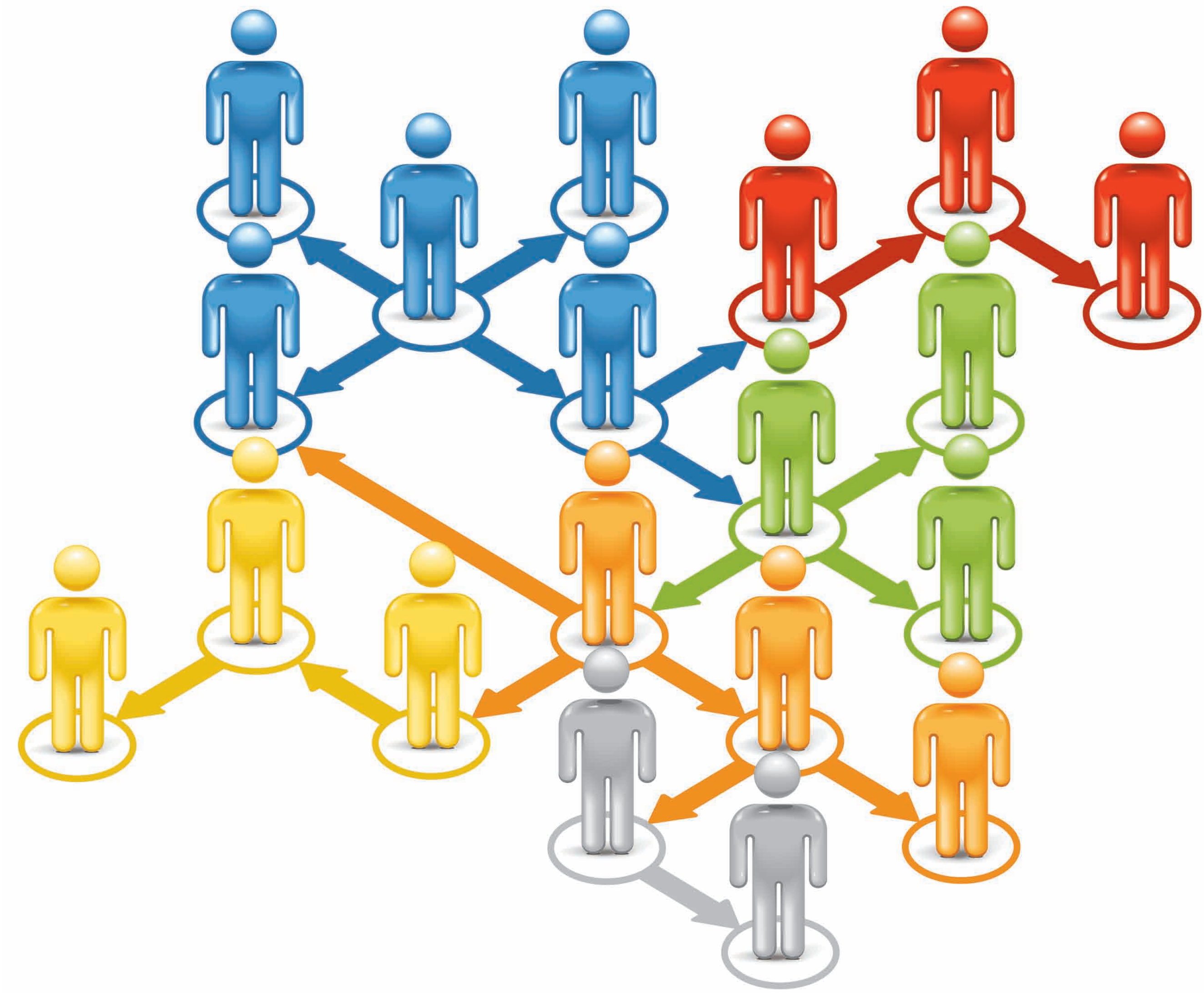
22 To enable customers to make e-payments across all SEPA countries it is also necessary to provide a payment vehicle that allows the exchange of funds between any accounts held in SEPA. At this point the SCT is the only payment instrument that can be used for domestic and cross-border electronic payments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

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

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

➪ It is expected that release 1.0 of the SEPA e-Payment Framework will be submitted to the EPC Plenary for approval in June 2011. Once approved for publication, release 1.0 of the framework will be published on the EPC website at www.epc-cep.eu .

➪ Any e-payment schemes using the SCT will then be able to enroll in the framework.



12.

Single Euro Cash Area

The pre-SEPA landscape for the distribution and processing of euro cash is characterised by multiple national infrastructures. The EPC believes that actions by all stakeholders within the euro area could contribute to reducing 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 Banknote Committee, banks and other key players. The objective of SECA is to create, with the Eurosytem, 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 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. Consumers continue to have a great affection for cash because it is real, instantaneous and apparently free. Cash payments, however, are costly for society: in 2008, the total cost of distributing, managing, handling, processing and recycling cash and of accepting cash payments was 84 billion euro; equivalent to 0.60 percent of Europe's GDP or 130 euro per person[23].

This chapter summarises the EPC's activities in 2010 designed to promote SECA and other objectives aimed at increasing the efficiency and security of processing and handling euro cash.

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

Nine years after the introduction of euro coins and banknotes, cash-in-transit companies (CITs) continue to operate exclusively within national boundaries due to differences in legalities between EU member states. In the summer of 2010, the European Commission introduced a proposal for a regulation on the professional cross-border euro cash transport by road between euro area member states. To ensure that the forthcoming regulation will provide the best regulatory framework to create a market for cross-border transportation, the EPC identified the following recommendations for amending several of its provisions:

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

23 Retail Banking Research (RBR): The Future of Cash and Payments (2010).

12.2 EPC comments on European Commission's recommendation on scope and effects of euro cash as legal tender

With the introduction of the euro as a physical currency in 2002, the status of legal tender of euro banknotes and coins is now laid down in European Union (EU) law and no longer in national legislation. The basic principles of the euro as legal tender are outlined in the Treaty on the Functioning of the European Union and in the Council Regulation 974/98 of 3 May 1998 on the introduction of the euro. In spite of this existing legal framework and with seventeen member states already sharing a single currency, different understandings among member states on the concept of legal tender of the euro banknotes and coins still exist. In 2010, the European Commission published a recommendation outlining ten guiding principles clarifying the scope and effects of the legal tender of euro cash in the euro area. This recommendation will be reviewed three years following its adoption.

The EPC supports the objectives of the European Commission to harmonise the scope of the legal tender of the euro and to provide useful guidance to the European citizens on many practical questions related to payments in euro cash. Following in-depth analysis, however, the EPC found that the European Commission's guiding principles give unfortunate messages on cash as a payment instrument. Specifically, the EPC raised the following concerns:

Ensure the free choice of payment means

Regarding the guiding principles on the mandatory acceptance of euro banknotes and coins and that payment in euro cash should be the rule in retail transactions, the EPC considers that the means of discharging a euro payment obligation should be determined exclusively by the preferences of and the resulting agreement between the supplier and customer of a good or service. The acceptance of euro banknotes and coins as means of payment in retail transactions being the rule gives the impression that a customer or supplier, each driven by convenience or security preferences on how to best settle a payment, would be restricted in its free choice of payment means.

Fight 'grey economy' activities

On the guiding principle that high denomination banknotes should be accepted in retail transactions, the EPC strongly believes that this is a contradictory and highly controversial message considering attempts of various member state authorities to reduce the impact of illegal or 'grey economy' activities and to fight against money laundering, tax evasion and organised crime in general. This particular recommendation would reverse the current results achieved in many member states to tackle these illegal or 'grey economy' activities.

Promote the shift to electronic payment instruments

The European Commission furthers recommends that no surcharges should be imposed on euro payments in cash. The EPC stresses that the cost of cash distribution, authentication and protection is subsidised by suppliers and payment service providers in the pricing of their services and products. The citizen is given the false impression that euro cash is free of charge. This creates an unequal competition on cost, efficiency and user convenience criteria between cash and other payment instruments (e.g. cards, mobile and e-payments). Furthermore, it sets additional hurdles to the stimulation of widespread technological innovation and new payment product developments within the EU. If citizens would increase their use of cash, its overall distribution cost would have to be financed even more by the other technological payment products and further restrict their widespread development and the subsequent economies of scale in costs. This particular guiding principle contradicts the Lisbon Agenda (promoted by the European Commission itself) for making the EU the most efficient and modern economy in the world.

Respect member states' rounding rules

The European Commission recommends that member states refrain from adopting new rounding rules which would presumably affect the legal tender of 1 and 2 euro cent coins. It goes without saying that those member states that have introduced such rounding rules took the decision after broad consultation of and consensus among coin cash cycle participants, and end users such as consumers and businesses. All parties involved in these member states considered that the societal cost of maintaining the circulation of 1 and 2 euro cent coins exceeded the benefits. Even though the circulation of such coins is thus rather limited in these countries, it does not indicate that these coin denominations have lost their legal tender status altogether. As for the European Commission's statement that the rounding rules may lead in some circumstances to a surcharge on cash payments, it must be remembered that the buyer is also just as often granted a discount by these same rounding practices.

The message of the European Commission goes against the aspirations of future euro zone communities to improve the efficiency and cost-effectiveness of coin handling, hence bringing societal benefits to the general public. The planned review of the recommendation in three years' time should take into consideration the consensus stakeholders have reached on this subject in various member states.

Stakeholder consultation

The EPC also strongly recommends ensuring broader stakeholder consultation on the subject in the future.

12.3 Protection of the euro

In October 2010 the EPC together with the European Anti-Fraud Office of the European Commission (OLAF), the European Central Bank (ECB) and the European Security Transport Association (ESTA) organised a conference to identify the most efficient means to protect euro cash as a shared responsibility of all market participants. Conference participants concluded that this can only be achieved if the following conditions are met: euro coins and bank notes must feature state-of-the art security features, a robust euro cash recirculation regulation framework and appropriate laws are in place, reliable logistics are available to detect counterfeiting, and – last but not least – the general public is educated on genuine euro coins and banknotes. Participants appreciated this opportunity to exchange views and expertise. The EPC recommends holding this conference at regular intervals (every two to three years) going forward.

For more information refer to the EPC website at www.epc-cep.eu / SEPA Cash.

13.

Information Security

Information security is becoming an increasingly important component in the governance and management of payment systems. The EPC provides advice and guidance on security issues affecting payments within the EPC's scope of work.

Security considerations for all payment types in the euro area are within scope such as card payments, automated credit transfers, direct debits and emerging payment methods as well as the collaborative IT infrastructure that underpins their operation. Among others, the EPC aims to establish security requirements, (implementation) guidelines and / or security best practices relating to the payment industry based on relevant international standards and make recommendations on minimum collaborative security levels.

Furthermore, the EPC may advise on the potential usage of international standards, so as to promote best industry practice. In this context, the EPC also evaluates the impact of potential (European) legislation that could influence the implementation of information security within the payments industry and monitors / liaises with appropriate standardisation bodies, such as the International Organization for Standardization (ISO) for example, to ensure proper development and application of EPC security documents.

13.1 Updated guidelines on the use of audit trails in security systems

In June 2010, the EPC approved an updated version of the document 'The Use of Audit Trails in Security Systems: Guidelines for European Banks'. These guidelines support payment service providers (PSPs) in complying with requirements established to ensure information security, i.e. protecting the confidentiality, integrity and availability of data underlying a payment transaction. Specifically, the revised guidelines now include recommendations regarding the maintenance of so-called audit trails (or audit logs) of payment systems. Audit trails form part of any information security management system: they feature a chronological sequence of audit records where each record pertains to the execution of a specific business process or system function. Audit records typically result from activities such as transactions or communications triggered by individual people, systems, accounts or other entities. Such records – as documented in the audit trail – are ultimately relied upon to validate whether the system controls designed to ensure information security are adequate.

The guidelines for the use of audit trails in security systems were first created in 2001[24] to provide good practice recommendations on how computer and system audit trails should be captured, stored and used to support the management and operation of security in banking computer systems. The previous edition of these guidelines, however, did not consider audit trails of payment systems. The scope of the updated edition approved by the EPC was extended to include payments-related data taking into consideration the implementation of harmonised SEPA payment schemes.

24 The document was first published by the European Committee for Banking Standards (ECBS); the EPC has taken over the ECBS tasks and maintains a portfolio of documents originally created by the ECBS.

The secure capture and storage of the audit trails of payment records, along with the relevant security audits, may, amongst others, serve as evidence in any related dispute resolution process. Such dispute resolution could take place between PSPs or between PSPs and their customers. The revised document is the basis from which specific guidance might be developed over time applicable to SEPA payment schemes and PSPs participating in these schemes.

The updated guidelines also take into account that internationally agreed security requirements are placing ever-greater emphasis on the need to capture transactional audit trails. The guidelines focus on IT security and audit trails for security-related purposes as well as on the audit trails of business processes of banks, namely the processing of payments. The changes compared to the previous edition include updates of the bibliography and an extensive review of the principles (or recommendations, as they were called in the previous version) with a view to improve clarity and to ensure that these principles are aligned with present requirements regarding information security. Last but not least, the document could serve as reference in service level agreements when outsourcing certain processing activities to third parties.

PSPs must regularly conduct audits to validate whether appropriate controls ensuring information security is in place. Such security audits consist of an independent review and examination of a system's records and activities to determine the adequacy of system controls and to ensure compliance with established security policy and procedures. The validation of system controls will usually rely on a so-called audit trail; e.g. a chronological record of system activities which allows reconstructing and examining the environment and processes impacting a security-relevant transaction. Such activities are documented in an audit log featuring a chronological sequence of audit records. An audit record is a single entry that describes one single auditable event. The systematic review of business processes or system functions as reflected in the audit log thus allows detection of possible breaches in security policies and – in the event that such breaches are identified – to develop recommendations on how to improve system controls.

The updated guidelines approved by the EPC offer practical, easy-to-use principles allowing PSPs to implement a secure audit trail strategy. These principles are applicable to any part of an organisation such as a business unit, corporate headquarter or data centres.

The document specifies audit principles in the following areas:

- Audit system design including events to be recorded, format and fields of records, audit tools
- Management of audit logs including ownership, access and classification of audit data, generation, storage and back-up of audit trails
- Retention periods
- Application and use of audit logs (e.g, internal investigations, presentation to court)

The EPC document ‘The Use of Audit Trails in Security Systems: Guidelines for European Banks’ is available on the EPC website[25].

25 http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=410.

13.2 Cybercrime Information Sharing Expert Group

Also in 2010, the EPC established the Cybercrime Information Sharing Expert Group (CISEG). This forum allows the exchange of information concerning threats, vulnerabilities and incidents of electronic attacks on payment systems, networks and environments. The forum seeks to mitigate risks based on the unauthorised penetration or manipulation of networks or infrastructures and / or related software that affects the sector. Taking into consideration the specific scope of the EPC, the CISEG will identify, as appropriate, the need to develop guidelines and best practices to prevent cybercrime.

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