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SEPA MIGRATION REPORT

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EXECUTIVE SUMMARY

The SEPA Migration End-date Regulation[1] established 1 February 2014 as the deadline for the euro area migration to SEPA credit transfers (SCTs) and SEPA direct debits (SDDs) denominated in euro.[2] The SEPA project is currently entering the critical stage of realising a vision that was born over ten years ago. The Eurosystem – in its capacity as a catalyst – is there to monitor the migration process towards the SCT and SDD schemes, to raise awareness of the project, and to identify any obstacles to the process, so as to ensure that the agreed deadlines are met by all stakeholders. In addition, individual central banks are closely involved at the national level in the coordination and communication activities centred around SEPA. Based on the quantitative and qualitative reporting conducted by the Eurosystem's national central banks, this SEPA migration report describes the state of play of the migration process in the euro area at the end of the fourth quarter of 2012 and provides guidance as to the management of the transition process in respect of the above-mentioned schemes.

GENERAL ASSESSMENT

The migration from the legacy credit transfer and direct debit payment schemes to the new SEPA schemes is a challenging process. Awareness of what SEPA means in practical terms is still rather fragmented and increases with the size of the respective stakeholders. The same is true for the level of involvement in preparation activities. A number of stakeholders seem to be planning for a late migration to the new schemes, particularly when it comes to the migration to the SDD scheme.

While acknowledging the complexity of some of the migration projects and without prejudice to the derogations[3] adopted by the Member States,

"The Eurosystem strongly advocates that all stakeholders, including big billers, public administrations and SMEs, migrate at a relatively early stage, preferably by the third quarter of 2013, at the latest, in order to avoid risks related to a late migration. These risks could impact the wider supply chain and should, therefore, be carefully considered both by payment service users in defining their internal deadlines and by payment service providers in facilitating end-users' migration; the Eurosystem will intensify its efforts in raising awareness among respective stakeholders."

The feedback received by the Eurosystem indicates that payment service users – and in particular corporates – have basically taken two different approaches to the migration process. A large number of corporates and public administrations have simply opted for basic compliance with a minimum effect on their enterprise resource planning (ERP) systems.[4] This approach could well be attributed to the current economic climate, of course. Other corporates have taken on board much larger scale projects with fully-fledged adjustments to their core systems and internal processes (e.g. consolidation of the treasury, a reduced number of in-house applications), thus taking advantage of all SEPA functionalities from day one.

SCT MIGRATION

The SCT scheme is gaining good ground by replacing legacy credit transfer schemes one by one. Its relative simplicity, its similarities with other legacy schemes and its XML-conversion suitability have helped adoption rates to increase. However, SCT transactions can only be transferred

1 Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (the SEPA Migration End-date Regulation).
2 On account of a later deadline (31 October 2016) for the migration of euro transactions in non-euro area Member States, developments in these countries are not covered in this report.
3 Derogations permitted in accordance with the SEPA Migration End-date Regulation.
4 This approach could also result in a dependence on XML-conversion services provided by third parties.

end-to-end if, first, payment service providers (PSPs) adjust their customer servicing channels associated with payments initiation and cash management services[5], and, second, if payment service users (PSUs) – where necessary – adapt their ERP systems.[6] The Eurosystem's monitoring of the state of play, did, however, reveal that not enough progress had been made on either of these fronts.

"To avoid a causality dilemma, payment service providers should make customer servicing channels ready for SEPA transactions as soon as possible and by the end of the second quarter of 2013, at the latest."

SDD MIGRATION

The SDD core scheme so far fails to capture a substantial transaction volume. Given the popularity of legacy direct debit payment instrument in certain countries[7] and the challenges associated with the new SDD collection process, the current situation is unacceptable. The materialisation of risks related to a late migration could damage the reputation of the new direct debit scheme, which could then be difficult to restore. Without prejudice to the right to adopt alternative business models[8],

"…countries that already work on the basis of a "creditor mandate flow" model should strive to migrate more than 50%[9] of their legacy direct debit transactions by the end of the third quarter of 2013.

Countries that originally worked on the basis of the "debtor mandate flow" model and therefore are subject to additional migration efforts should strive to migrate at least one- third of their transactions by the same deadline.

To generate a breakthrough, payment service providers should not only make their customer servicing channels ready for SEPA, they should also devote sufficient resources to familiarise end-users, both debtors and creditors, with technical, business and contractual issues related to migration to SDD.

Moreover, payment service providers should provide substantial assistance to debtors in order to explain how consumers' protection measures established under the legal framework could be exploited. The public's trust in SEPA, in general, and in the SDD scheme, in particular, is of utmost importance and is a precondition for a smooth transition process."

MARKET MONITORING

In order to further support the integration process, the competent authorities responsible for ensuring compliance with the SEPA Migration End-date Regulation will need to find effective ways in which to cooperate at the pan-European level. Where the competent authority is not a central bank, given its competence in the field of retail payments,

"The Eurosystem central banks will be ready to assist the relevant competent authority, for example, when local decisions could have a broader impact on the integrated payments market."

5 For example, customer-to-bank and bank-to-customer interfaces via dedicated networks or internet banking.
6 In some countries, which have opted for the temporary waiver up to February 2016, SCT transactions can also be initiated using proprietary formats, which, later on in the chain, would be subject to conversion to ISO 20022 formats. However, in that case, truncation of some of the data cannot be ruled out and reconciliation could be less straightforward. In a post-migration environment (February 2014 or February 2016, respectively), PSPs may still offer conversion services, provided that these services are, operationally, fully independent from all subsequent payment services offered by that PSP. The conversion would take place prior to the "receipt" of the payment instruction by the PSP.
7 For example Germany, Spain, France, the Netherlands and Austria, which together account for more than 90% of direct debits in the euro area.
8 For example, SCT-based e-invoicing solutions.
9 This is based on the Eurosystem's national indicators.

INTRODUCTION

The Eurosystem, in pursuit of its mandate to promote the smooth operation of payment systems, has firmly supported the creation of SEPA since 2002. An integrated market for electronic payments in euro is necessary for the proper functioning of the internal market for the benefit of its citizens and businesses. By replacing the current national payment schemes with the common EU-wide[10] payment schemes, based on open standards and common rules, SEPA has laid the foundations for efficiency in the payments chain. SEPA is not purely a business venture, it is also closely linked to the political agenda of a more integrated, competitive and innovative Europe.

SEPA started as a self-regulatory initiative led by the European Payments Council (EPC) – the European banking industry's self-regulatory body. The EPC launched one SEPA credit transfer and two SEPA direct debit schemes[11] in 2008 and 2009, respectively. Although these SEPA schemes achieved high reachability within the banking sector, they failed to reach critical payment mass within a reasonable time frame. In order to avoid a prolonged period in which both legacy and SEPA products ran in parallel and, equally, in order to reap the full benefits of an integrated retail payments market, a single mandatory end date for legacy credit transfer and direct debit schemes was set up by EU legislators. To this end, all legacy payment schemes will eventually be replaced by the SEPA schemes developed by the EPC, as they are the only candidate schemes to have met the requirements under the SEPA Migration End-date Regulation thus far.

Migration to SEPA schemes, namely SEPA credit transfer (SCT) and SEPA direct debit (SDD), will constitute the first deliverables of a wider SEPA agenda which also encompasses card payments and innovative payment solutions, whereby the market, supported by the authorities, works further to benefit from internal market opportunities. The scope of the current reporting procedure is in line with the scope of the SEPA Migration End-date Regulation and is, therefore, confined to the SCT and SDD schemes only.

This report is divided into four parts. The first part focuses on the actual adoption of the SEPA schemes. The second and third parts provide a more detailed examination of the preparedness of PSPs and PSUs, respectively. The last part provides an overview of other migration developments relating to the SEPA Migration End-date Regulation.

10 In addition to the 27 EU countries, SEPA also covers Iceland, Liechtenstein, Norway, Monaco and Switzerland.

11 The core SDD scheme is available to consumers and businesses in their capacity as payers, whereas the business-to-business SDD scheme is available to businesses only.

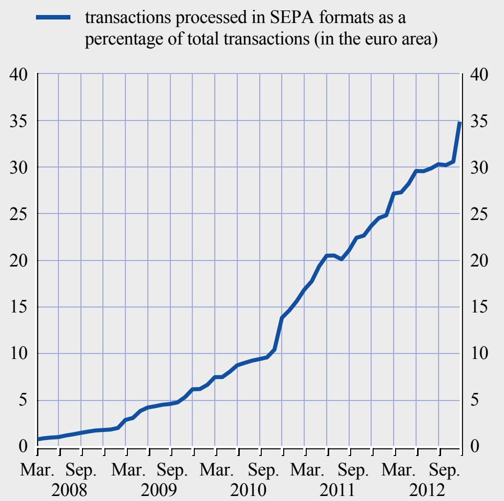
1 MIGRATION TO SEPA SCHEMES

The Eurosystem has been monitoring the migration to SCT and SDD schemes by means of euro area and national indicators[12]. These quantitative indicators should not, however, be seen as providing an ultimate measure of the progress made in the migration to these schemes. The indicators were introduced at a time when the mandatory use of the ISO 20022 message formats in customer-to-bank (c2b) and bank-to-customer (b2c) domains[13] was not yet part of the SEPA agenda. The limitations of these quantitative indicators[14] led the Eurosystem to develop an additional set of qualitative indicators.

According to the euro area SCT indicator, the use of SCTs (see Chart 1) accounted for 34.9% of the total credit transfer volume in December 2012. In the second half of 2012, the pace of migration slowed somewhat. This seems to have been a temporary phenomenon, however, as illustrated by developments in December 2012. Moreover, public administrations that have not yet migrated are expected to switch to the SCT scheme over the coming months.[15]

Chart 1 SEPA credit transfers as a percentage share of all credit transfer transactions in the euro area

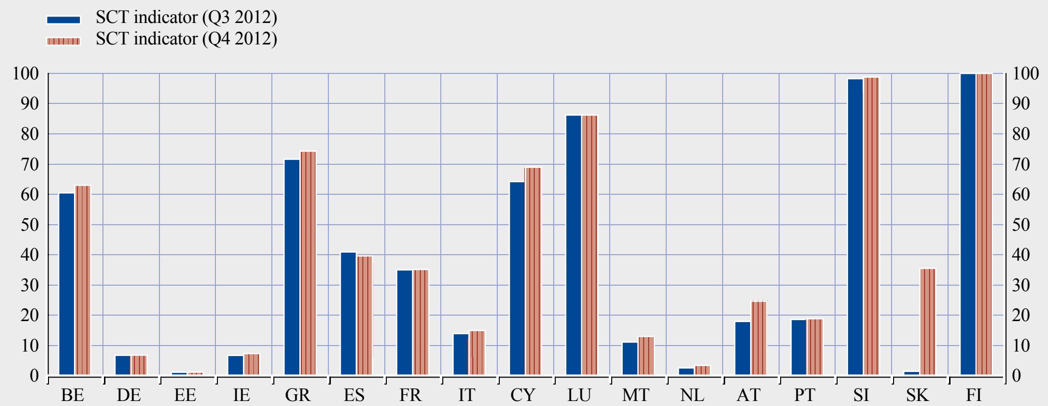
(March 2008 to December 2012; as a percentage)



Source: ECB.

Chart 2 SEPA credit transfers as a percentage share of all credit transfer transactions in the individual euro area countries

(quarterly data; as a percentage)



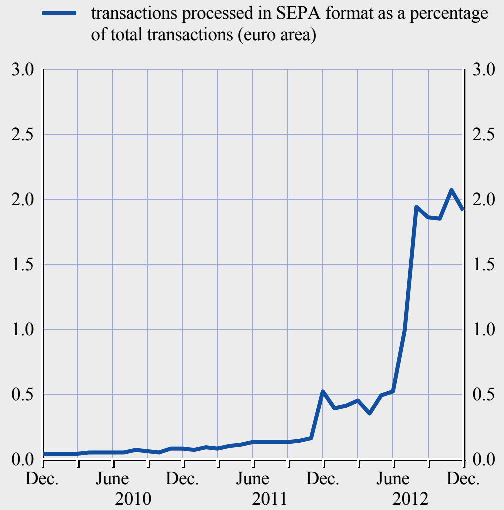
Source: ECB.
Note: Q4 2012 for LU – provisional assessment.

12 The methodology and results are published on the ECB's website at http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html.
13 The provision in the SEPA Migration End-date Regulation applies to any PSU that is not a consumer or a microenterprise and that initiates or receives individual transactions that are bundled together for transmission.
14 A high level of SEPA transactions does not necessarily indicate a high end-to-end preparedness, owing to the fact that conversion services may have been applied within the transaction chain.
15 Migration projects in public administrations in France, Ireland, Italy and other countries are due to be completed in the first half of 2013.

The national SCT indicators (see Chart 2) illustrate the fact that the uptake of SCTs at the national level varies considerably across countries. In two countries, namely Slovenia and Finland, in principle, all credit transfers are processed using the SCT format. In Belgium, Greece, Cyprus and Luxembourg, more than 50% of credit transfers are processed using the SCT format. In four countries, however, SCT migration results are below 10%.

Chart 3 SEPA direct debits (core scheme) as a percentage share of all direct debit transactions in the euro area

(December 2009 to December 2012; as a percentage)



Source: ECB.

The SCT scheme's relative simplicity in terms of the technical and contractual set-ups, similarities with legacy schemes and XML-conversion suitability have helped migration rates to increase. The early preparedness at the interbank level, supported by SEPA-compliant infrastructures, as well as the early migration to the SCT scheme by public administrations, have both played a crucial role in terms of the SCT scheme gaining good ground. However, more progress needs to be made in terms of ensuring that SEPA requirements are met and, in particular, that the mandatory ISO 20022 message formats are properly used end-to-end.

The SDD scheme thus far fails to capture a substantial volume of transactions. According to the euro area SDD indicator, the use of SDDs (see Chart 3) accounted for only 1.9% of the total direct debits volume in December 2012.

Apart from Slovenia, which has already migrated to the SDD scheme, none of the other countries are close to completing their migration projects. In Belgium, Greece, Malta and Austria, there seems to be somewhat more significant uptake than in the other countries, where migration is only marginal, including in the four largest direct debit markets[16], which account for more than 85% of direct debits in the euro area. It should be noted that PSPs in some countries (e.g. Estonia) have opted not to invest in creditor accounts servicing.[17] In Estonia and Finland, the legacy direct debits will, primarily, be replaced by SCT-based e-invoicing solutions.

There is a combination of reasons for the slow uptake of the SDD core scheme. In many cases, it can be attributed to the substantial workload associated with the technical and contractual issues surrounding the said scheme. Moreover, given that public administrations are relatively small players in the direct debit market, they are not able to provide the same kind of impetus as is the case for the credit transfer market. However, in some of the other cases, the tendency to postpone migration to the last possible moment does not seem substantiated. This is particularly true of countries that already operate on the basis of the "creditor mandate flow" model, which is also used in the SDD scheme.

16 Germany, Spain, France, and the Netherlands.
17 In accordance with the SEPA Migration End-date Regulation, these PSPs should, however, be reachable for SDDs, as the debtor bank.

Postponements may lead to undue operational risks. For instance, limited capacity on the side of PSPs and software vendors, at the end of 2013, could delay some of the end-users' migration projects. End-to-end testing between end-users' and PSPs' applications could be reduced to insufficient levels, leading to temporary IT glitches. Back-up solutions, if available on the side of the PSPs, are not likely to replace all functionalities of the SEPA schemes. These risks, even though of an operational nature, could eventually affect the wider supply chain and even jeopardise the public's trust in direct debits. Without prejudice to the rights to adopt alternative business models[18], countries that already operate on the basis of a "creditor mandate flow" model should strive to migrate more than 50%[19] of their legacy direct debit transactions by the end of the third quarter of 2013. Countries that originally operated on the basis of the "debtor mandate flow" model – and are, therefore, subject to additional migration efforts – should strive to migrate at least one-third of their transactions by the same deadline.

18 For example, SCT-based e-invoicing solutions.
19 This is based on the Eurosystem's national indicators.

2 PREPAREDNESS OF PAYMENT SERVICE PROVIDERS

In order to complement quantitative indicators and to assess SEPA's preparedness across the transaction chain, the Eurosystem has developed a set of qualitative indicators, which are updated on a quarterly basis by the national central banks, taking into account the specificities of the respective country.[20] Although the qualitative indicators are based on a common approach, they are, primarily, meant to indicate the level of preparedness of the different stakeholder groups within the respective country and are less of an indication for doing any cross-referencing between the various individual countries.

As assessed at the end of the fourth quarter of 2012, the preparations for the SCT services at the PSP level are not yet complete (see Table 1). Despite the fact that, at the interbank level, SCT messages were exchanged straight after the SCT scheme was launched back in 2008, the SEPA scale, as defined by the SEPA Migration End-date Regulation, goes beyond the interbank, level, and, in specific cases also encompasses interfacing with end-users systems.[21] For this purpose, the customer servicing channels associated with payments initiation and cash management services,[22] owned and managed by PSPs, need to be adjusted. The Eurosystem's monitoring of the state of play did, however, reveal that not enough progress had been made on this front. Without prejudice to the SEPA Migration End-date Regulation derogations – leading, in some countries, to the prolonged use of proprietary formats in c2b and b2c domains – all PSPs in those countries shall ensure that customer interfaces are produced in ISO 20022 formats as of February 2014, if specifically requested by PSUs.

Moreover, there is a causality dilemma between the availability of SEPA-compliant customer servicing channels and PSUs' ability to complete their internal migration projects, owing to the need to align and test data streams. In this respect, PSPs should make customer servicing channels ready for SEPA transactions as soon as possible and by the end of the second quarter of 2013, at the latest.

In those Member States that have prolonged the use of proprietary formats in c2b and b2c domains until February 2016,[23] the PSPs will maintain customer servicing channels both in the ISO 20022 formats and the legacy formats. Moreover, in those same Member States, PSPs will offer conversion services between legacy formats and ISO 20022 formats in order to comply with the SEPA requirements applicable at the interbank level.[24] Additional time for end-users will, however,

Table 1 Preparedness of payment service providers for SEPA credit transfers and SEPA direct debits (core)

(assessment status at the end of Q4 of 2012)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT	Green	Green	Yellow	Yellow	Green	Green	Yellow	Yellow	Yellow	Green	Green	Yellow	Green	Green	Green	Green	Green
SDD core	Green	Green	Yellow	Yellow	Green	Green	Yellow	Yellow	Yellow	Green	Green	Yellow	Green	Yellow	Green	Yellow	Green

Source: ECB.
Notes: Green – preparations completed successfully; yellow – preparations in progress and expected to be ready on time.

20 The Eurosystem performed these qualitative assessments on a best effort basis. It cannot be excluded that the preparation level of the individual stakeholders diverges from the general overall assessment. Qualitative assessments cannot be interpreted as engaging the responsibility of competent authorities designated under the SEPA Migration End-date Regulation.
21 The provision of the SEPA Migration End-date Regulation applies to any payment service user that is not a consumer or a microenterprise and that initiates or receives individual transactions that are bundled together for transmission.
22 For example, customer-to-bank and bank-to-customer interfaces via dedicated networks and internet banking.
23 Estonia, Greece, Spain, Italy, Cyprus, Portugal and Slovakia.
24 This is different from PSPs being allowed to offer consumers' conversion services to IBAN for national transactions until 1 February 2016 (Article 16.1), as is the case in Germany, Estonia, Spain, Cyprus, Portugal and Slovakia.

result in additional costs for PSPs, which may, ultimately, be passed on to end-users. In addition, the truncation of some data and more cumbersome reconciliation cannot be ruled out.

In those Member States that have not opted for the aforementioned derogation, some PSPs seem to be considering offering stand-alone conversion services from legacy to ISO 20022 formats in order to continue supporting proprietary formats. Whilst acknowledging that payments flows should not stop immediately after the migration deadlines have been met, the Eurosystem has underlined the need to align XML-conversion services with the provisions of the SEPA Migration End-date Regulation.[25] In this respect, it should be noted that once the migration deadlines have been met, all payment orders, if not submitted to the respective PSP in the formats stipulated by the SEPA Migration End-date Regulation, would have to be rejected by the respective PSP, and would not be accepted for further processing.

According to the assessments made by the Eurosystem, the preparedness for SDD services at the PSP level is even lower than that for the SCT services. However, the PSPs play different roles depending on their place in the SDD chain. All euro area PSPs providing direct debits in euro have already ensured debtors' (payers') accounts reachability, as mandated by Regulation No 924/2009[26], the deadline for which was 1 November 2010. In order to improve consumers' protection, the SEPA Migration End-date Regulation has introduced additional requirements for PSPs[27], with effect from February 2014. The Eurosystem's monitoring of the state of play did, however, reveal that there was still some progress to be made in terms of adjusting debtors' servicing channels (e.g. internet banking, branch services, etc.) to this end. The public's trust in SEPA, in general, and in SDD services, in particular, is of utmost importance and is a precondition for a smooth transition process. In this respect, PSPs should make consumers' protection measures available to debtors as soon as possible and by the end of the second quarter of 2013, at the latest. Moreover, PSPs should provide substantial assistance to debtors in terms of explaining how these measures should work in practice.

In countries where the national direct debit scheme is based on a "debtor mandate flow", the PSPs have the additional responsibility of granting access for creditors to mandate information or of completely transferring paper mandates to creditors. In several countries (e.g. Belgium, Portugal, and Slovenia), this process is coordinated at the national level by the deployment of specialised solutions.

In addition to ensuring consumers' protection measures, PSPs that have envisaged providing payment services to creditors (payees) will also need to focus on the adjustment of creditors' servicing channels (e.g. dedicated networks, internet banking) in order to comply with the ISO 20022 formats. In this respect, PSPs should also devote sufficient resources to familiarise end-users with the technical, business and contractual issues relating to migration to the SDD scheme.

There is currently room for further cooperation among PSPs, be they on the debtor or on the creditor side. This is particularly true in the case of e-mandate solutions or more advanced business offerings. The Eurosystem regrets that a pan-European e-mandate solution – a feature that has

25 In a post-migration environment (February 2014 or February 2016, respectively), PSPs could still offer conversion services, provided that these services are, operationally, fully independent from all subsequent payment services offered by that PSP. The conversion would take place prior to the "receipt" of the payment instruction by the PSP.

26 Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community. The provisions on reachability for direct debit transactions (Article 8) have been replaced by those of the SEPA Migration End-date Regulation (Articles 3 and 16(2)).

27 For example, checking the amount and periodicity, white listing and black listing of creditors.

been specifically requested by e-merchants – was deemed to be of low priority by many countries and would not be available at the pan-European level – and not even at the national level – for the forthcoming migration phase. The Eurosystem took note of the fact that some countries were planning for faster SDD collection cycles.[28] However, if delivered at a late stage, these offerings could become another "wait-and-see" reason for end-users.

28 The standard SDD collection cycle takes five business days for a one-off collection and for a first recurrent collection and two business days for subsequent recurrent collections. However, there is an option within the SDD core scheme for it to take only one business day cycle for both recurrent and one-off collections. Faster collections are planned in Germany, Spain and Austria.

3 PREPAREDNESS OF PAYMENT SERVICE USERS

The required preparation activities for end-users will depend on the size of the respective stakeholder and the scale of the respected project. For consumers and microenterprises, the main task will be to familiarise themselves with IBAN[29,30] and the features of the SDD scheme. All other end-user groups should not underestimate the complexities of SEPA migration, as their back-office core systems and, in this respect, the overall supply chain, will be affected.

In the following part, the status of preparedness of each key PSU group is examined. The assessment is based on the qualitative indicators used by the Eurosystem.[31]

3.1 BIG BILLERS

Large corporates are exposed to a more complex migration process, especially if migration to the SCT and the SDD schemes is occurring in parallel. Most of them have already completed the planning phase and know what SEPA will mean for them in practical terms. However, when it comes to the actual implementation of the schemes, a number of corporates seem to have postponed their internal deadlines, even as far as the end of 2013.[32] The preference for a late migration – albeit some of these being justified by the complexity of certain migration projects – exposes the respective stakeholders to undue operational risks that could impact the wider supply chain and eventually cause unexpected business impediments. While acknowledging the complexity of some of the migration projects and without prejudice to the derogations[33] adopted by the Member States, the Eurosystem strongly advocates migrating at a relatively early stage, preferably by the third quarter of 2013 at the latest, so as to avoid risks related to a late migration.

The feedback received by the Eurosystem indicates that end-users have basically taken two different approaches to their migration projects. One group of stakeholders has opted for large scale projects with fully-fledged amendments to their core systems and internal processes (e.g. consolidation of treasury, a reduced number of in-house applications), thus taking advantage of all of SEPA's functionalities from day one. The other group has opted for basic compliance with a minimum effect on their ERP systems. This could also be achieved by acquiring XML-conversion services provided, at a charge, by PSPs or other third parties. The minimalistic approach may, inter alia, be attributed to the current economic climate and is further supported by those Member States that, by means of the derogation, have prolonged the use of the proprietary formats in the c2b and b2c domains.

In general, the preparedness for the SCT scheme seems to be more advanced than for the SDD scheme (see Table 2), however, interfacing with PSPs using the ISO 20022 formats and preparations for the SEPA identifiers seem to be the main issues still to work on and both of these issues are also relevant for migration to the SDD scheme. In some countries, end-users have already been using IBAN payment account number identifiers for their national and cross-border transactions for some time. In other countries, businesses still need to update their internal databases in order to be able to comply with the IBAN requirements, which have to be complemented by careful checks in order to avoid any mistakes in input at the payment initiation.

29 IBAN (International Bank Account Number).

30 In six countries, namely Germany, Estonia, Spain, Cyprus Portugal and Slovakia, PSPs are allowed to offer conversion services from the BBAN to the IBAN for national transactions until 1 February 2016. Exclusively consumers are eligible for these services.

31 The Eurosystem compiled these qualitative assessments on a best effort basis. It should be noted that the preparation level of individual stakeholders may diverge from the results found in the general overall assessment.

32 The reasons for a postponed migration differ from one country to another. In some cases, it is related to budgetary reasons, for example, in order to delay investment costs and/or to prevent the costly maintenance of duplicating systems. In other cases, stakeholders are anticipating more advanced business offerings, for example, faster SDD collection cycles.

33 In accordance with the SEPA Migration End-date Regulation.

Table 2 Preparedness of big billers for SEPA credit transfers and SEPA direct debits (core)

(assessment status at the end of Q4 of 2012)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT	green	yellow	red	yellow	yellow	yellow	yellow	yellow	yellow	green	yellow	yellow	yellow	yellow	yellow	yellow	green
SDD core	yellow	yellow	N.A.	yellow	yellow	yellow	red	yellow	yellow	red	yellow	yellow	yellow	yellow	green	yellow	N.A.

Source: ECB.
Notes: Green – preparations completed successfully; yellow – preparations in progress and expected to be ready on time; red – preparations not yet commenced and/or not expected to be ready on time; N.A. – service offerings not envisaged and/or actively marketed by local PSPs.

Table 3 Preparedness of public administrations for SEPA credit transfers and SEPA direct debits (core)

(assessment status at the end of Q4 of 2012)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT	green	yellow	red	yellow	yellow	yellow	green	yellow	yellow	green	yellow	yellow	yellow	yellow	green	yellow	green
SDD core	N.A.	yellow	N.A.	yellow	yellow	yellow	yellow	yellow	N.A.	red	N.A.	yellow	yellow	yellow	green	N.A.	N.A.

Source: ECB.
Notes: Green – preparations completed successfully; yellow – preparations in progress and expected to be ready on time; red – preparations not yet commenced and/or not expected to be ready on time; N.A. – service offerings not envisaged and/or actively marketed by local PSPs and/or direct debits not used by public administrations.

Corporates using direct debits are subject to additional preparations compared with those needed for the SCT scheme. With each SDD transaction, specific data elements need to be submitted, as defined in the SEPA Migration End-date Regulation.[34] Effectively, this means that the enrichment of data sets, linked to existing mandates, needs to be accomplished. In addition, corporates that are located in "debtor mandate flow" countries need to set up a mandate management process[35], whereby they capture data elements of existing mandates currently stored at debtor PSPs.

3.2 PUBLIC ADMINISTRATIONS

Public administrations, and, in particular, central administrative authorities have taken the lead when it comes to SEPA migration, and, in many cases have already completed the migration process to the SCT scheme (e.g. Belgium, Luxembourg, and Finland). A number of SCT migration projects are expected to be completed in the first half of 2013 (e.g. Ireland, France, and Italy) and they will provide further impetus for the market as a whole. Public administrations either use direct debits to a rather limited extent or not at all, and are therefore unable to provide the market with the same kind of impetus as for the SCT scheme.

It has to be said, however, that public administrations are not a homogeneous group. When it comes to municipalities or regional authorities, awareness of the SEPA project in general and the level of preparedness are pretty low. This is particularly true when the respective local administrations

34 For example, the unique mandate reference, creditor identifier, etc.
35 For example, mandate issuing, storing, amending, cancelling, archiving, etc.

interact with PSPs individually rather than through a centralised process. They may, however, be exposed to the detriments of a late migration. In order to avoid operational risks that could eventually affect public services provided by central and local public administrations, the Eurosystem strongly recommends migrating at a relative early stage, preferably by the third quarter of 2013, at the latest.

Analysis undertaken by the European Commission[36] in 2012 revealed that, in certain cases, the technical compliance with the SCT scheme has been ensured through the dependence on XML-conversion services provided by PSPs. In this respect, and akin to corporates, the respective public administrations cannot rule out the eventuality of somewhat restricted SEPA functionalities and/or additional fees to be applied by PSPs.

3.3 SMEs

SMEs' migration to SEPA schemes should be easier to accommodate in terms of in-house preparations and resources owing to the lower number of internal applications generally maintained by SMEs. In order to ensure a successful transition to the SEPA scheme, SMEs are very much dependent on the availability of SEPA-compliant software solutions developed by IT vendors and customer servicing channels developed by PSPs. When using SDD services, SMEs will be exposed to similar implementation measures as those of corporates, only to a lesser degree. SMEs' tailored, mandate management solutions provided by third parties would significantly simplify SMEs' migration efforts and would increase the attractiveness of the SDD scheme for this segment of the market.

Recent surveys conducted at the national level have revealed that there is only a modest level of awareness of SEPA and a rather poor level of preparedness. Business impediments, if caused by bottlenecks at the end of the migration period, may substantially challenge the everyday finances of SMEs. Owing to their low market power, SMEs could be faced with somewhat higher fees for conversion services, provided by PSPs or other third parties. In order to avoid risks relating to a late migration, the Eurosystem strongly advocates migrating at a relative early stage, preferably by the third quarter of 2013, at the latest.

36 See the "6th survey on public administrations' preparedness and migration to SEPA credit transfers and direct debit", European Commission, 2012.

4 OTHER MIGRATION DEVELOPMENTS

The SEPA Migration End-date Regulation defined a number of deadlines (e.g. for transitional derogations, for non-euro area countries). At the time of publication of this report, the following deadlines were met:

i) Reachability for PSPs established within the euro area countries and payment accessibility (31 March 2012);

ii) Elimination of the multilateral interchange fees for cross-border direct debit transactions or other agreed remuneration with an equivalent object or effect (1 November 2012);

iii) Designation and notification to the Commission of the competent authorities and bodies for out-of-court complaint and redress procedures; laying down of rules on the penalties applicable to infringements; notification to the Commission of the transitional derogations, if applied (1 February 2013, by Member States).

The reachability requirement has been *de facto* implemented by the PSPs well before the deadline. The provision overruled the previous self-regulation nature in respect of SCT reachability. The reachability requirement for the core SDD scheme was set up by virtue of Regulation No 924/2009 with a deadline of 1 November 2010. Reachability for b2b SDD scheme remains voluntary, although in practice, the scheme has received a wide adherence level.[37]

The SEPA Migration End-date Regulation literally removed all restrictions vis-à-vis PSUs to locate their accounts within the EU. This provision overruled a number of specific national procedures defined by the public authorities requiring stakeholders to have national payment accounts (e.g. for tax or social benefit purposes). However, the affected agencies do not always seem to be fully aware of this new regulatory provision. The competent authorities should raise awareness of and promote an enforcement of the principle of payment accessibility.

Regulation No 924/2009 capped the multilateral interchange fee at €0,088 for cross-border direct debit transactions until 1 November 2012. The SEPA Migration End-date Regulation introduced an unconditional elimination of the multilateral interchange fee per transaction, or of any other agreed remuneration with an equivalent object or effect. The elimination of these fees entered into force on 1 November 2012 for cross-border payments and will enter into force on 1 February 2017 for national payments. In this context, PSPs in Belgium, France and Italy continue to charge multilateral interchange fees for their national direct debit transactions. Moreover, the SEPA Migration End-date Regulation defined strict conditions under which multilateral interchange fees could still be applied for direct debit transactions that cannot be properly executed by a PSP, or that result in exception processing, or so-called R-transactions.

An overview of the derogations adopted by the Member States until 1 February 2016 in accordance with the SEPA Migration End-date Regulation is provided below in Table 4.

37 More than 3,200 PSPs have adhered to b2b SDD scheme.

Table 4 Facts related to the SEPA Migration End-date Regulation

Competent national authorities responsible for ensuring compliance with the SEPA Migration End-date Regulation (Article 10.1)	In eleven countries, the NCB is the sole competent authority or partner with another public authority: Ireland, Greece, Spain, France, Italy, Cyprus, Malta, the Netherlands, Portugal, Slovenia and Slovakia.
PSPs allowed to offer consumers' conversion services to IBAN for national transactions until 1 February 2016 (Article 16.1)	Germany, Estonia, Spain, Cyprus, Portugal and Slovakia.
A waiver until 1 February 2016 for niche products (Article 16.3)	Greece, Spain, Italy, Cyprus, France and Austria.
A waiver until 1 February 2016 for card payments resulting in a direct debit (Article 16.4)	Germany and Austria.
A waiver until 1 February 2016 exempting the mandatory use of the ISO 20022 XML format for individual credit transfers or direct debits bundled in batches (Article 16.5)	Estonia[1)], Greece, Spain, Italy, Cyprus, Portugal and Slovakia.
A waiver until 1 February 2016 allowing for the continued use of the PSP's BIC for national credit transfers and direct debits (Article 16.6)	Ireland, Greece, Cyprus, Malta and Portugal.

1) For a period of 12 months, but this could be extended by another period of 12 months.

In order to further promote the integration processes, the competent authorities responsible for ensuring compliance with the SEPA Migration End-date Regulation will need to find effective ways to cooperate at the pan-European level. Where the competent authority is not a central bank, given its competence in the field of retail payments, the respective Eurosystem central bank will, nevertheless, be ready to assist the relevant competent authority, for example when local decisions could have a broader impact on the integrated payments market.