EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

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'Making SEPA a Reality'

Implementing the Single Euro Payments Area

Abstract	This document is a communication tool for use by EPC stakeholders.
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ABSTRACT

What is SEPA? : The Single Euro Payment Area (SEPA) will be the area where citizens, companies and other economic actors will be able to make and receive payments in euros, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

What geographical areas does it include? : SEPA will be delivered as a priority within the euro-area. Within Europe, outside the euro-area, there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the Single Market for payment services. Europe is currently defined to consist of the EU 25 Member States plus Iceland, Liechtenstein, Norway and Switzerland.

Who is responsible for the initiative?: The SEPA programme has been championed by the European Commission (EC), and the European Central Bank (ECB) working with the Eurosystem, and with the support of the European Payments Council (EPC) which brings together the European payments industry. It is a major public policy initiative to create a single integrated payments environment for the euro consistent with economic and monetary union and the Lisbon agenda.

How will it impact the payments market? : SEPA is not only about improving the processing efficiency of the modest volumes of cross border euro payments. SEPA is a major restructuring and harmonising project which will impact national payments markets which will implement new, common business rules and technical standards. All electronic payments will be impacted as a result and core credit transfers, direct debits and card payments will migrate to interoperable formats and processes. At the same time, national market features and practices in relation to the core instruments will gradually be phased out. Every citizen, merchant, public administration and corporate with a banking relationship in the euro-area will eventually be impacted by SEPA, as will everyone in the payments supply chain.

How will it impact the economy and society? : SEPA will create the conditions for enhanced competition in the provision of payment services. It will also generate, through harmonisation, more efficient payment systems which will deliver tangible benefits for the economy and society as a whole. The euro currency will be systematically strengthened by being underpinned with an integrated payments environment.

What are the key design features? : In developing SEPA, two design approaches have been followed. For Credit Transfers and Direct Debits, a “replacement” strategy has been chosen with new common credit transfer and direct debit schemes for the whole SEPA. For the highly complex cards business, the strategy has been that of “adaptation” of existing schemes and their operator(s) to a new set of business and technical standards and processes. A core feature of both approaches is the clear separation of scheme from infrastructure (a scheme is a set of rules, practices and standards agreed between providers of payment services. Infrastructure is the underlying delivery systems and processing platforms).

What has been delivered so far? : The key EPC deliverables have been two Scheme Rulebooks for the new SEPA Credit Transfer and SEPA Direct Debit, together with a number of supporting documents such as a Data Model based on open ISO standards, implementation guidelines and principles for the evolution of clearing and settlement. For payment cards, a new SEPA Cards Framework has also been agreed which is in the process of being be implemented by banks, card schemes and card processors.

Where does competition fit in? : The business architecture of the SEPA deliverables is based on several different layers of activity. First there will be the competitive bank layer in which banks provide SEPA products and services for customer use. The second layer relates to the scheme co-operation. This defines the basis on which banks co-operate to provide standards, rules and interoperability. The third layer relates to the processing infrastructure. This layer is primarily competitive as between various competing channels, although communities of banks can and do cooperate to meet common needs.

When will this happen? : From 2008 the three SEPA payment instruments (credit transfers, direct debits and cards) will operate alongside existing national processes, with full migration achieved from the end of 2010 onwards. After the transition purely national solutions for core credit transfers and direct debits, and purely national card schemes will no longer exist.

Who will be responsible for implementation? : The implementation of SEPA will be driven by banks, national central banks, payment associations, schemes and public authorities in each country in the euro-area. The EPC's role will be to manage and maintain the schemes and frameworks, develop further business rules and standards, to communicate with all parties and to support and monitor progress.

What are some of the benefits? : Once SEPA is achieved, it will be possible for consumers to reach all accounts SEPA-wide from one home country account. More widely accepted payments cards will displace cash improving customer safety and security. Merchants will be able to accept payment cards from all SEPA countries and back office processes will be simplified. For smaller businesses (SME) faster settlement and simplified processing will improve cash flow and reduce costs. It will enable them to receive or make euro-payment anywhere within SEPA on the same basis. For large merchants and corporates, common standards could further enable the construction of one standard platform for the whole SEPA resulting in major savings. One single file in a common format can be used to receive and send payments throughout SEPA. For government and public administrations, the common schemes will enable the delivery of improved services to citizens at home and abroad. Banks will have opportunities to develop innovative products, enter new markets and win new relationships. The payment sector suppliers will have an opportunity to develop low cost new technology products and services which will serve the single euro market.

What is the purpose of the document? : The document draws together essential information for the banking community about SEPA from a number of different perspectives. It provides the source material from which banks can create their own tailored communications activities for all their stakeholders and audiences. Whilst it currently exists as a 'stand alone' document that the banking communities are encouraged to use and translate within their own communities, the content is now being re-packaged for easier and more tailored access from the EPC's website, www.europeanpaymentscouncil.org .

What should be done next? : SEPA requires a major implementation and communication effort by many parties. For participants in the payment industry some of the key messages are as follows:

- Communicate positively to all involved parties internally and externally
- Assess the opportunity to reassess products, services, process and platforms to improve efficiency and add value
- Assess the impact on business, administrative, technology and operational environments
- Create a dedicated SEPA project function with responsibility for communication, planning and coordinating SEPA implementation
- Build a SEPA implementation plan based upon SEPA requirements
- Support national SEPA implementation organisations and planning activities
- Read and keep up to date via the EPC website and national and community information channels.

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0 Document Information

0.1 Change History

Issue number	Dated	Reason for revision
1.0	28/06/06	First issue of the document.

0.2 About the European Payments Council

The European Payments Council (EPC) is the decision-making and coordination body of the European banking industry in relation to payments whose declared purpose is to support and promote the creation of the SEPA.

The vision for the SEPA was formulated in 2002 at the time of the launch of EPC, when 42 banks, the three European Credit Sector Associations (‘ECSA’s) and the Euro Banking Association (‘EBA’) came together and, after an intensive workshop, released the White Paper in which the following declaration was made and subsequently incorporated into the EPC Charter:

"We, the European banks and European Credit Sector Associations:

- *share the common vision that Euroland payments are domestic payments,*
- *join forces to implement this vision for the benefit of European customers, industry and banks and accordingly,*
- *launch our Single Payments Area."*

The definition of SEPA is part of the EPC Roadmap as approved by the EPC Plenary in December 2004: **SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe** (currently defined as consisting of the 25 European Union (‘EU’) member states plus Iceland, Norway, Liechtenstein and Switzerland), **whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location**.

The SEPA will be delivered as a priority within the euro area. Within Europe, but outside the euro area, there will be opportunities to participate in euro payment schemes, and communities will be able to adopt SEPA standards and practices to contribute to the single market for payment services. The EPC aims for the widest acceptance of the euro payment Schemes and Frameworks, but recognises that some laws may only apply in the scope of the EU region.

0.3 Purpose of Document

As defined in the EPC Roadmap 2004 – 2010 document, SEPA will be delivered in three phases, being (1) Design and preparation, (2) Implementation and deployment, and (3) Co-existence and gradual adoption. In preparation for the implementation phase, and in order to raise awareness amongst all stakeholder communities, EPC has produced this “Making SEPA a Reality” document.

The principal aim of the document is to provide banks and each (national) banking community with a source of texts explaining SEPA from various perspectives, as follows:

- the overall vision and scope of SEPA,
- the design philosophy adopted for the Schemes and Frameworks
- the various design components that collectively make up SEPA
- the end-user experience of SEPA
- the roles and responsibilities of the stakeholders in the SEPA Programme
- the benefits delivered by SEPA

Each bank or national banking community may use the texts as the basis for the production of a range of communications tailored for particular market sectors.

Given this principle aim, the resulting document contains numerous subsections which address the same subject matter but each from the standpoint of a different type of customer (for example from the point of view of a citizen, a merchant, an SME, a multinational corporate, a public administration). This is particularly the case in Section 3. EPC expects that in producing tailored versions, bank marketing and/or relationship staff would focus on only one viewpoint, resulting in more concise documents.

Despite this repetition that has been deliberately built in, this document may be read as a self-standing and coherent document.

The target readers of the document are banks' own staff (marketing staff, payment specialists, relationship managers, operations and IT specialists), staff at the European Commission, ECB, national central banks, banking and payments associations, regulators, corporate or merchant associations, the supplier sector (clearing houses, consultants and IT vendors) and the payments sector technical press/media. However, the document is intended to be in the public domain, and is available on the EPC public website.

A wide range of source documents has been taken into account in preparing this document. These include the SEPA Credit Transfer and SEPA Direct Debit Scheme Rulebooks, the SEPA Cards Framework, the Payment Services Directive Version Proposal 1/12/2005 com/2005/603 (PSD), the PE-ACH/CSM Framework, the SECA (Cash) Framework, the Roadmap 2004 – 2010 document, plus slide presentations and newsletters provided by members, and EC and ECB press releases and speeches. Whilst all efforts have been made to ensure consistency between this document and its sources, the source documents always take precedence.

1 SEPA VISION AND OVERVIEW

1.1 The SEPA Vision

The introduction of Economic and Monetary Union and the euro in 1999 laid the foundations for the development of an integrated European market for goods and services. These concepts were enthusiastically re-affirmed in the Lisbon Accord of 2000. The vision of a Single Euro Payments Area (SEPA) has had a long gestation period but now, at last, the prospect of harmonisation is in sight. Within the next four years citizens and corporates in Europe will be able to make euro payments anywhere within the SEPA as easily as they make payments at home.

However it must be emphasised that SEPA is not only about improving the processing efficiency of the modest volumes of cross border euro payments - SEPA is a good deal more. SEPA is a major restructuring and harmonisation project which will impact the many fragmented national payments instruments with the implementation of new, common business rules and technical standards. All electronic payments will be impacted and as a result, credit transfers, direct debits and card payments will migrate to common interoperable formats and processes. At the same time, many of the exclusively national market features and practices which have previously constrained the creation of an open payments market will gradually be phased out. Every citizen, merchant and corporate with a banking relationship in the euro area will eventually be impacted by the SEPA project, as will everyone in the payments supply chain.

SEPA is much more than improving cross border processing efficiency

SEPA will create the conditions for enhanced competition in the provision of payment services. It will also generate through harmonisation more efficient payment systems with tangible benefits for the ecomony and society as a whole. The euro will be systemically strengthened as a currency by being underpinned with an integrated payments environment.

1.2 The SEPA Scope

SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location. SEPA will be delivered as a priority within the euro-area. Within Europe, outside the euro-area there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the Single Market for payment services. Europe is currently defined to consist of the EU 25 Member States plus Iceland, Norway, Liechtenstein and Switzerland. (See Chapter 5.1 for further details).

The euro-area alone currently processes some 50[1] billion electronic retail transactions and between two to four times again in cash each year. This massive volume is generated by 310[2] million citizens, 16-18[3] million large and small corporates, 7,000-8,000 banks[4], 4.5 million points of sale and 240,000 ATMs. Given the size of the market, the costs of bank migration will be very substantial. However the long term efficiency gains and improved competition from a common payments market will be equally substantial and will eventually more than offset the initial outlay.

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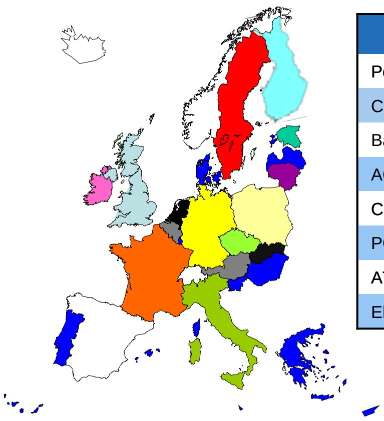
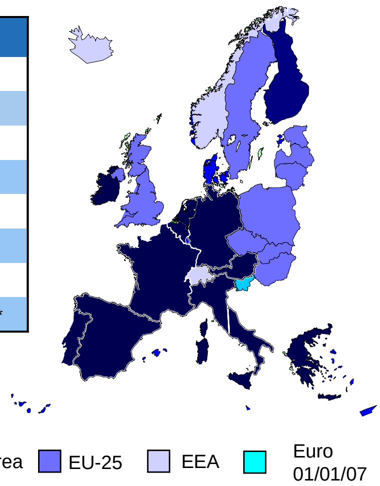
[1] ECB Blue Book 2004 (includes ATM).
[2] ECB Blue Book 2004.
[3] 2003 Observatory of European SMEs
[4] Estimated

Today → **Tomorrow**



	12 euro	29
Population	310m	470m
Corporates	17m	25m
Banks	7-8k	9k
ACH Schemes	10	20+
Card Schemes	14+	18+
POS	4.5m	6.2m
ATMs	238k	326k
Electronic transactions	50bn	73bn*



Today – Different Country Implementations	Tomorrow – Harmonised SEPA
• National / local solutions	• Common solutions with additional optional services
• Different schemes, experiences, standards, consumer protection laws	• Common core payment instruments and experiences, consistent standards, application of harmonised consumer protection laws
• No interoperability of national schemes	• Improved interoperability
• Different country implementations	• Harmonisation and consolidation
• Cross-border complexity and risk	• Reduced complexity, improved efficiency

* Not all euro transactions

Figure 1.1: Today and Tomorrow's Vision

SEPA will impact euro payments made within its entire geographic area. There is a priority implementation focus on the euro-area, currently 12 countries (13 from January 2007), and the change programme will radically impact their whole domestic payments environment. As new countries join the euro they will go through a similar process. Today at least 70% of all non-cash payments in the EU-25 are made in euros. From the beginning all non euro countries will be able to participate in SEPA when dealing with euro payments and may also choose SEPA standards for their own domestic currency payment instruments.

In practice the vast majority of banks throughout SEPA active in making and receiving euro payments are expected to participate in the SEPA Schemes and issue cards compliant with the SEPA Cards Framework.

1.3 The SEPA Programme

The SEPA programme has been initiated by three key European bodies. First, the original vision and the overall initiative sits with the European Commission (EC). This position has recently been augmented by the publication of the proposal for a Payment Services Directive (PSD) in December 2005 which is designed to complement the internal market and SEPA in particular, and is intended to harmonise and remove legal barriers for payments throughout the European Union (not just the euro-area).

Second, the European Central Bank (ECB) has developed guidance on SEPA requirements and set the implementation timelines as part of its remit to ensure an efficient and orderly payments market in the euro-area.

Third, the European Payments Council (EPC) a self-regulatory initiative of the European banking industry founded in 2002 has responsibility for designing the new SEPA payment instruments. In addition, for the cards business, the EPC has created a new enabling framework which will allow Europe's card schemes to adapt and harmonise their current structures and rules. These initiatives are complemented by projects to encourage the repositioning of cash, to harmonise euro cash distribution and to reduce payments fraud.

1.4 The SEPA Design Philosophy and Rule Books

In developing SEPA, the EPC has followed two different but complementary design approaches. For Electronic Transfer Schemes (ETS) a "replacement" strategy has been chosen with new common credit transfer and direct debit schemes for the total SEPA. For the highly complex cards business, the strategy has been that of "adaptation" of existing schemes to a new set of business and technical standards and processes. A core feature of both approaches is the clear separation of scheme from infrastructure and delivery system to enable increased competition among industry processors. The key deliverables from this design process have been two Scheme Rulebooks for the new SEPA Credit Transfer and SEPA Direct Debit, together with a number of supporting documents. A new SEPA Cards Framework has also been agreed and will be implemented by banks, card schemes and card processors.

SEPA will deliver new Schemes for credit transfers and direct debits and a framework for cards

In the euro-area, the euro is already successfully used as the single cash currency, and as a result notes and coins have their particular implementation focus within the SEPA programme. This will concentrate on a new harmonisation and processing framework for the wholesale distribution of the euro and on the development of a SEPA cash repositioning strategy with the objective of encouraging consumers and merchants to migrate to payment cards and electronic transfers with considerable savings for society.

1.5 SEPA Implementation and Migration

From 2008 the three SEPA payment instruments (credit transfers, direct debits and cards) will operate alongside existing national processes, with full migration achieved from the end of 2010 onwards. After the transition purely national solutions for core credit transfers and direct debits, and purely national payment card schemes will no longer exist. The implementation of SEPA will be driven by national central banks, banks, payment associations, schemes, and public authorities in each country in the euro-area. The EPC's ongoing role will be to manage and maintain the Schemes, develop business rules and standards to communicate with all parties and to monitor progress.

1.6 SEPA Benefits

From one account it will be possible to reach all accounts SEPA-wide

SEPA will deliver many benefits. For consumers, payment services across SEPA will be more universal and predictable. From one account it will be possible to reach all accounts SEPA-wide, as if the payments were being made at home. Spending on holiday will be easier, allowing payment cards to displace cash for many purchases improving customer safety and security. Merchants will be able to accept payment cards from all SEPA countries. Terminal costs should fall due to economies of scale; and back office processes of merchants and banks will be simplified.

For smaller businesses (SME's) faster settlement and simplified processing will improve cash flow and reduce costs, as well as enabling the receiving or the making of euro-payments anywhere in SEPA. For large merchants and corporates, common standards will enable the construction of one standard platform for all their euro payment operations. Major savings will result from improved and simplified exception processing, automated standing data set up and improved and guaranteed remittance data. One single file in a common format can be used to receive and send payments within SEPA. For government and public administrations, SEPA will provide common schemes operating to common standards, enabling the delivery of improved services to citizens at home and abroad. Procurement of payment services will no longer be limited to local banks.

Banks will have opportunities to develop innovative products, enter new markets and win new relationships. More importantly, at the level of an individual bank all these benefits could be provided by a single bank account processing platform that could serve customers in the euro-area and potentially throughout SEPA. Card payments and electronic transfers will experience radical change, the separation of scheme from infrastructure, and the gradual phasing out of national processes and practices. For the payments sector suppliers, there will be significant opportunities to develop low cost new technology products and services which will serve one large euro market rather than many markets with different standards.

1.7 The SEPA Commitment

The European banking industry has fully committed itself to the success of SEPA and the following declaration was made by the EPC on 17 March 2005:

Declaration adopted by the European Payments Council Plenary on 17th March 2005

We, the EPC, are committed to building the Single Euro Payments Area (SEPA) and have already delivered SEPA payment solutions which are in growing use by European citizens and corporates. We have approved and are delivering a Roadmap for the full realisation of SEPA.

We will deliver the two new Pan-Euro Payment Schemes for electronic credit transfers and for direct debits. We will also design a Cards Framework to define a single market for cards. The scheme rulebooks and the cards framework definition will be delivered by end 2005, and the services will be operational by January 2008.

We know from feedback from our community in the euro-area that by the beginning of 2008 the vast majority of banks will offer these new Pan-Euro services to their customers.

We are also convinced that a critical mass of transactions will naturally migrate to these payment instruments by 2010 such that SEPA will be irreversible through the operation of market forces and network effects.

SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities (consumers, SMEs, merchants, corporates and government bodies) and supportive public authorities. The community of European banks is strongly committed to this ambitious programme of action, based on self-regulation and a full recognition of the role of market forces and competition.

We have created the necessary conditions for success through commitment and consensus on the part of EPC and all its banking communities.

Figure 1.2: Crowne Plaza Declaration

1.8 Call to Action

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

The EPC and the banking community have been set very ambitious euro-area targets by 2008 and end 2010 covering both credit transfers, direct debits and cards. These dates will not be achieved without substantial help and support from everyone involved in the payments process. The initiatives and directions that the EPC requests of all parties through this document can be summarised as follows:

- **Communicate positively.** Use this document or extracts to positively the SEPA message both internally and externally to all those parties who you believe will be impacted by SEPA.
- **Assess the impact.** Conduct an Impact Assessment to ascertain how SEPA will impact the business, administrative, technology and operational aspects of the payments processing within your organisation.

- **Assess the opportunity.** SEPA is not just a mandated infrastructural project. Use the change to reassess products, services, processes and platforms to improve efficiency and to add value to your business.
- **Appoint a SEPA project manager.** Appoint a senior individual with responsibility for communicating, planning and co-ordinating all aspects of SEPA implementation and who also can act as the focal point for all internal and external SEPA communications.
- **Build a SEPA plan.** Construct a SEPA implementation plan and framework which can be updated as details of the SEPA requirements and Scheme Rulebooks and Frameworks are released by the EPC.
- **Support your national SEPA implementation organisation.** Work closely with your national SEPA implementation organisation and contribute input into the national SEPA implementation plan.
- **Read and keep up to date.** As with the euro project, SEPA will generate many documents, new Rulebooks and Frameworks, as well as detailed standards and specifications. These documents will have to be absorbed and understood by the many thousands of individuals who work within the payments sector. The key elements you need to be aware of are to be found on the EPC web site.

Making SEPA a reality is more than just the responsibility of the EC, ECB and EPC

Finally, making SEPA a reality is more than just the responsibility of the EC, ECB and EPC. As with euro conversion, SEPA will not happen without a strong commitment by all parties (including most importantly, governments and public administrations) at a national level. There is much work to be done: over-arching co-ordination bodies must be created in each country to monitor the SEPA project teams at schemes and national associations; organisations (banks, corporates and public administrations) need to appoint a SEPA Project Manager to own and build the SEPA programme; and all parties need to keep up to date and communicate the new rules, standards and timetables to staff, customers and eventually to citizens in Europe.

SEPA has taken time to develop but the pace is now quickening. The EC, ECB and the EPC have now created ambitious targets for euro-area implementation which will only be achieved by strong co-operation from all those involved. All stakeholders are requested to help deliver a Single Euro Payments Area of which citizens in Europe can be proud. The European banking industry has fully committed itself to the success of SEPA.

1.9 Report Contents

The following sections are designed to provide a general overview of the SEPA programme. Section 2 provides background and content. Section 3 provides an outline of how SEPA will impact the end user, consumers, merchants, corporates and utilities. Section 4 describes the design criteria and content of the new schemes and cards and cash frameworks. Section 5 describes timing and Section 6 outlines roles and responsibilities for implementation. Section 7 reviews potential impacts and benefits to banks, issuers, acquirers, processors and payment sector providers. Section 8 outlines the actions which readers are encouraged to take as a result of reading this document.

2 SETTING THE SCENE

2.1 Introduction and Summary

This document has been prepared by the European Payments Council (EPC) to provide a general overview of the Single Euro Payments Area (SEPA) programme and to provide a high level primer for those who will be responsible for SEPA implementation over the next five years.

The purpose of this section is to provide a summary of the background to the SEPA concept and the Payment Services Directive (PSD) within which it will operate.

Figure 2.1: Three SEPA Pillars

The SEPA initiative is supported by three major pillars. The political rationale for harmonisation has been championed and driven by the European Commission (EC) in close cooperation with the European Council and European Parliament. Much as with the euro introduction, SEPA's high level requirements and implementation timelines have been defined and set by the Governing Council of the European Central Bank (ECB). Design and specification are the responsibility of the European Payments Council (EPC), as well as the monitoring of implementations and migration. The key events that have contributed to building the SEPA vision over the past 14 years are summarised below.

Year	Timeline for SEPA	Outcome
1990	• EC paper "Making Payments in the Internal Market"	• Set long term principles for harmonisation
1992	• EC paper "Easier Cross Border Payments – Breaking the Barriers"	• Identifies key enablers for a common payments landscape
1993-1996	• EC + banking industry co-operation on cross border payments	• New products and providers emerge and a gradual improvement in service levels
1997	• Directive on Cross-Border Credit Transfers	• Established minimum information and performance requirements for cross-border credit transfers
1999	• ECB "Improving Cross Border Retail Payment Services"	• Outlined objectives for improving cross border payments
2001	• EC Regulation on Cross Border Charges – Regulation 2560/2001	• Elimination of differences between charges for national cross-border payments in the EU on a country by country basis
2001	• ECB "Towards an Integrated Infrastructure for Credit Transfers in euro"	• Defined the basis of a new credit transfer payment instrument
2002	• Creation of EPC	• Banking sector commitment to SEPA concept
2003	• Establishment of EBA STEP2	• First PE-ACH created
2004-2006	• EPC development of new schemes and frameworks	• Major EPC deliverables: o two Scheme Rulebooks (credit transfers and direct debit) o two frameworks (cards and cash), developed and agreed o standards recommendations, data model and implementation guidelines finalised o PE-ACH/CSM Framework agreed.

Figure 2.2: Timeline - Building the SEPA Vision

The following paragraphs provide a brief history of SEPA and also explain the involvement of the major organisations and bodies in Europe.

2.2 SEPA and the European Commission

The principles of open and competitive markets are the building blocks upon which the European Union's (EU) internal market has been constructed. However, the harmonisation of the EU's markets in the areas of finance and banking services has proved to be complex. Structural differences in the revenue models and operations models (business rules and standards) are an impediment to rapid harmonisation. Similarly, the development of a common payments infrastructure has also had an extended timeframe. The history of the SEPA project reaches back to 1990 with the publication of an European Commission report "Making Payments in the Internal Market" which outlined a community vision of a single payments area stating "the full benefits of the single market will only be achieved if it is possible for business and individuals to transfer money as rapidly, reliably and cheaply from one part of the community to another as now is the case with(in) most Member States"[5]. Although this vision primarily referred to retail cross border transfers, it became the founding principle on which calls for change were based over the next twelve years.

Harmonisation has proved to be complex

During the early/mid 1990's, the Commission's DG Internal Market, together with various committees representing Europe's banks, co-operated to improve the choice of services available for cross border transfers. By 1995/1996 new players entered the market and service levels improved. However, Europe's banks were unable to address the bigger structural and political issue of a longer term need to harmonise Europe's payments market. Almost certainly one of the key obstacles to progress was the diversity of national legal and business rules and standards within Europe's banking businesses, and as a result, Automated Clearing Houses (ACH's) and Electronic Funds Transfer at the Point of Sale (POS) systems operated using widely different standards and a diverse mix of commercial frameworks. The high costs, risks and complexity of changing each national market and the pipeline of mandated change projects already committed, meant bankers were reluctant to take on the risks of a harmonisation project without the full support of the rest of the European Union before the implementation of the euro. Cross-border credit transfers were, however, made subject to minimum information and performance requirements under the 1997 Directive.

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

However, with the turn of the millennium, the successful euro implementation in 1999 and 2002 and the completion of bank Y2K conversion in 2000, the Internal Markets harmonisation project moved back to the top of the agenda for both the Commission and the ECB. Following the Lisbon Accord in 2000 Europe's banks were again encouraged to commit to the development and implementation of a common payments infrastructure and in 2001 the Commission laid the foundations of its SEPA policy through Regulation 2560/2001, whereby banks are not permitted to impose different charges for domestic and cross-border payments or ATM withdrawals in the EU-25.

[5] 1990 EC "Making Payments in the Internal Market"

In addition, the EC recognised that a single payments market would only be possible within a common legal framework that would remove the local anomalies and differences. The first version of a New Legal Framework for Payments (the NLF, which preceded the Payments Services Directive - PSD) Working Document was issued in 2001 designed to harmonise the fragmented national legal provisions.

As a direct result of this renewed level of political support, a workshop in 2002 attended by key European banks and their associations considered self-regulatory options to achieve payments harmonisation. The conclusions were consolidated into the White Paper "Euroland: our Single Payments Area" which described the required change programme as "the Single Euro Payments Area – SEPA". Thus "SEPA" was born. The EPC, a new self regulatory payments body, was subsequently established in June 2002 to design, specify and monitor the implementation of the SEPA.

From 2001 through to 2005 the EC carried out extensive consultations with all the key stakeholders (banks, merchants, corporates, trade bodies and consumers) and a proposal for a Payment Services Directive (PSD) was issued on 1st December 2005. The PSD seeks to provide one of the fundamental building blocks for the SEPA vision and "bring down the existing legal barriers to enable the creation of a Single Payments Area in the EU." The aim is to make cross border payments by credit card, payment card, electronic bank transfer, direct debit or any other means as easy, cheap and secure as national payments within one Member State.[6]"

The PSD seeks to provide one of the fundamental legal building blocks of SEPA

The Commission adds that the PSD (and SEPA) will enable European citizens to be "able to pay for goods and services anywhere in the EU as you would do at home, will bring a whole new dimension to everyone's purchases and will make Europe even more an everyday reality for us all"[6.]

The Commission expects the PSD to establish a modern and harmonised legal framework that will provide the "necessary legal platform for the Single Euro Payments Area".

At the time of writing, the PSD is being considered by the European Parliament and Council with a view to its adoption before the end of 2006. EPC remains concerned about a number of its provisions and is in active dialogue with regulators and the Commission, most particularly with respect to the proposed introduction of Payment Institutions and the need for a level playing field, the question of execution time for payments and numerous technical areas where there is at this stage a lack of appreciation of the realities of the processing of payments. EPC has also stressed the necessity for the timely adoption of the PSD as a precondition for the timely implementation of SEPA.

[6] Comments by Commissioner McCreevy – EC Press Release 1/12/05

2.3 SEPA and the European Central Bank

The ECB has specified the broad system requirements for SEPA after stakeholder consultation

Over the past six years the ECB and the Eurosystem has been a highly pro-active promoter of the plan to harmonise Europe's payments and a strong catalyst for the creation of the SEPA concept reflecting its responsibility for the single euro currency implementation. The ECB created the TARGET platform to realise an efficient and orderly euro payments settlement system for banks and central banks. This platform will be replaced by a new platform, TARGET2, from November 2007. The ECB has issued several reports between 1999 and 2003 to guide the creation of a common euro-area payments market. The ECB has long argued that monetary conversion remains incomplete until Europe converts to common electronic euro money across all forms of payment. The ECB has also worked closely with the EC, co-owning elements of the payments harmonisation plan. More specifically the ECB has specified the broad payment system requirements (after consultation with key stakeholders) that Europe's banks need to embody within the SEPA design and also established the timetable for implementation.

The ECB definition of SEPA complements that of the original founding EC view, namely "a real SEPA will be achieved (for citizens in the euro area) when they can make payments throughout the whole area from a single bank account, using a single set of payment instruments, as easily and safely as in the national context today".[7] The ECB has specified that the launch of the core SEPA payment instruments begins in 2008 and national migration is complete by end 2010, by which time there should no longer be parallel cross border and domestic systems.

The Eurosystem takes an active role in the SEPA programme, publishing regular Progress Reports and organising frequent meetings with the banking industry, user groups and infrastructure providers. It has also taken measure in the cash area with a Framework for cash recycling.

2.4 SEPA and the European Payments Council

The EPC is the decision making and co-ordination body of the European banking industry for payments. Its declared purpose is to support and promote the creation of a harmonised, open and interoperable European payments market through self-regulation.

The EPC has the role of designing and specifying the core common services which will operate within a single European payments market place. It also provides guidance and co-ordination to enable the development of SEPA standards; identifies and synthesises best practice in the payments industry; and supports and monitors the implementation of SEPA.

The EPC was established in June 2002 and adopted its current governance structure in mid 2004. It now consists of 65 Members, composed of banks or banking associations. Over 250 professionals are directly engaged in the work programme of the EPC from across 27 countries and represent all sizes and sectors of credit institutions within the European market.

7 Speech by Gertrude Tumpel-Gugerell to EPC at Durbuy 6/9/04

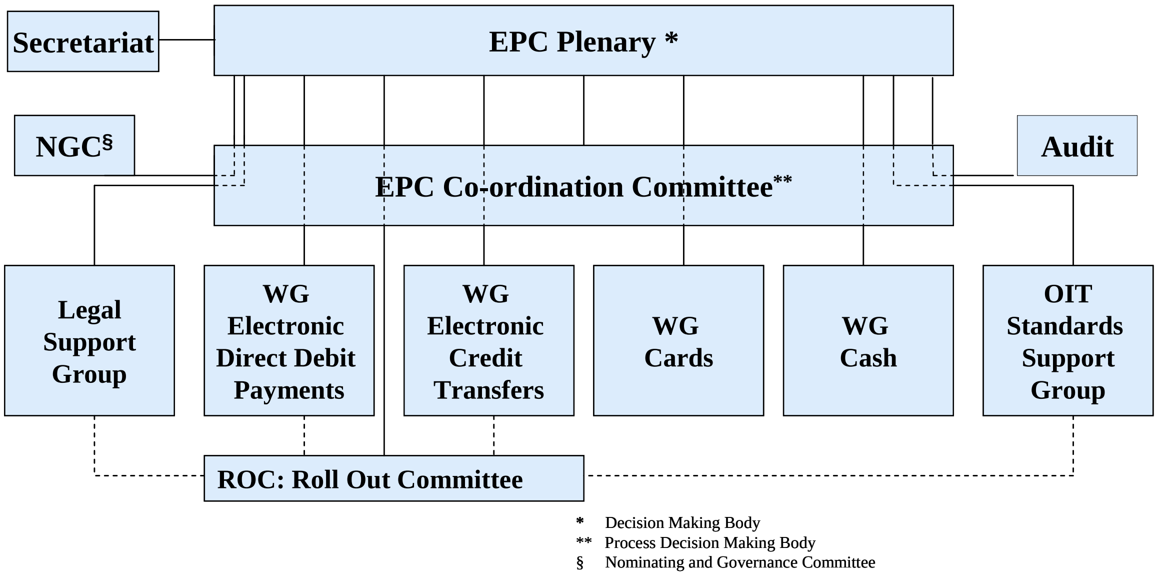


Figure 2.3: Governance Structure of the EPC

The EPC's vision of SEPA reflects those of the EC and the ECB and is summarised as follows:

"SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location."

The EPC, its constituent bodies and working groups meet on a regular basis and are responsible for undertaking a wide programme of activities of which the primary committees and working groups are indicated below.

Body	Responsibility
• The Plenary	• The decision making body of the EPC
• Coordination Committee	• Coordination and programme management
• The Electronic Credit Transfer Working Group (ECT WG)	• Responsible for the new SEPA Credit Transfer Scheme (SCT)
• The Electronic Direct Debit Working Group (EDD WG)	• Responsible for the new SEPA Direct Debit Scheme (SDD)
• The Cards Working Group (CWG)	• Responsible for the SEPA Cards Framework (SCF)
• The Cash Working Group (Cash WG)	• Responsible for the Single Euro Cash Area (SECA) Framework
• The Roll Out Committee (ROC)	• Responsible for implementation, monitoring and scheme governance recommendations
• Operations Infrastructure Technology and Standards Support Group (OITS SG)	• Responsible for the development of standards
• Legal Support Group (LSG)	• Responsible for providing legal support to the Working Groups and Committees

Figure 2.4: Key EPC Committees and Working Groups

The EPC's role is now moving from a primary focus on scheme design and policy to that of implementation, governance and communication (see later sections for further explanation). The key deliverables that the EPC has and will produce up to the end of 2006 are summarised within the table below.

Deliverable	Date
Interbank Convention on Payments (Credeuro/ICP[8])	2003
First PE-ACH becomes operational	2003
SEPA Credit Transfer Scheme Rulebook (SCT)	2006
SEPA Direct Debit Transfer Scheme Rulebook (SDD)	2006
SEPA Data Model and Standards Implementation Guidelines (UNIFI [ISO 20022] XML Standards)	2006
SEPA Cards Framework (SCF)	2005
Single Euro Cash Area Framework (SECA)	2006
Principles for Clearing and Settlement (PE-ACH/CSM Framework)	2006

Figure 2.5: The Key EPC Deliverables

[8] Interbank Charging Practices

3 THE SEPA END USER EXPERIENCE

3.1 Introduction and Summary

The SEPA deliverables, combined with the complementary Payment Services Directive (PSD) involve a set of complex changes to payments, commercial practices and infrastructures. Often it is difficult to explain their impact on the day-to-day lives of consumers, merchants and corporates within SEPA and the EU. The purpose of this section is to provide examples of the practical application of SEPA and PSD principles by comparing **"Today's"** experience with the one that will exist **"Tomorrow"** when SEPA will affect end users in Europe. Banks will start delivering their SEPA payment services as of January 2008.

3.2 Citizen Europe

SEPA will impact all those who make electronic euro transactions and will change the service that underpins the way they make and receive payments. Research by Europe's banking associations shows that current banking services meet a very high proportion of customer's needs within their domestic markets. However, each European country has developed its banking and payment systems at a different pace to meet local market requirements. Sometimes this results in varying levels of payments service for consumers, particularly for the many millions of citizens who regularly cross adjacent borders for day to day shopping and who holiday within Europe. However consumer requirements and payments patterns are changing. In all countries citizens want improved services and expect payments to be processed speedily and in a standardised manner within their home country and when dealing with other European markets. By 2008 SEPA will enable customers to access many new payment features. Typical citizen Europe will see significant changes in their traditional payments methods as they shop in the high street, in other countries, whilst on holiday, or online. A comparison of "Todays" payment methods and those under SEPA "Tomorrow" is summarised within Figure 3.1 below.

Typical citizen Europe will see significant changes in their traditional payments methods beyond 2010

Today – Pre SEPA (2006)	Tomorrow – SEPA
• Payments limited to home market only with separate services for foreign payments	• Payments made from home bank to any of the SEPA countries using common standards
• In other countries: – National payment cards often not accepted by merchants – Over reliance on ATMs for cash – High cash holding - security concerns – Lack of transparency of merchant currency conversion fees – Different experiences at POS terminals in different nations	• In other countries: – Home payment card enabled for all SEPA-based merchants – Fewer visits to ATMs required for cash withdrawal – Increased card usage – less cash in wallet – Full transparency of charges, fees and exchange rates in all EU nations – Common experience and processes at POS terminals
• Telephone or internet purchases restricted to home market for some	• Purchases made in any country with a common legal framework for consumer protection and redress
• Variable service sending money or making payments outside home market, delays in transferring value	• Competitively priced, improved service for all payments outside home market with new clearer account codes, no value dating and no deduction of fees from the principal amount of payment
• Inconsistent direct debit processes. Mandate set up and change processes complex in some markets	• Standard Direct Debit Rules for all euro-area countries. Common mandate processes for set up, first payment and standing data change
• In some markets extended periods to process salaries and other payments	• Predictable transfer timeframes offered by banks with no regression from current service levels
• Complex bank charges for payments services	• Full disclosure of charges, fees and exchange rates for payments
• Widely different consumer redress processes in every country	• Common EU-wide process for consumer redress and refunds
• In some markets a limited choice of banks from which to purchase payment facilities	• Increased choice and ability to shop around for lowest cost or highest functionality accounts in SEPA countries
• Common processes for transferring pensions when resident outside native/home country	• Common processes for pension transfers within predictable time frames

Figure 3.1: Today/Tomorrow - SEPA and PSD Impacts on a Typical Citizen

As this comparison shows, SEPA has the potential to radically reposition the payment services available to citizens. All banks, no matter how small, will be able to offer accounts that are usable in all SEPA countries. When spending in other countries and on holiday, citizens can feel more secure, carry less cash and be less reliant on local ATMs. Their home payment card can be accepted for payments in any SEPA country and they will receive full details of any merchant currency conversion charges across SEPA. The processes, rules and account codes for sending money within SEPA to family and friends will be simplified with standardised money transfers and transparent fee structures with no deductions from the transferred amount.

Direct debits will be harmonised within SEPA and common processes adopted for mandate set up, first payments and standing data changes, improving the service for regular bills payment. In addition, salary payments and credits to the current account will have predictable posting dates. Finally, charges for payments processing will be fully disclosed and new and common legal framework applied for refunds, disputes and complaints.

3.3 European Mobile Citizens

European citizens are becoming increasingly mobile in their working or studying lives as markets for services are liberalised. Several million people now work outside their home country in a wide variety of employment sectors making a major contribution to Europe's competitiveness.

Over 1.2m students have participated in the Erasmus programme since 1987

In addition, young people from all over Europe are participating in programmes to obtain work experience and to study in other countries. Typically the mobile worker and student often find it difficult to use a home based bank to support payments in their working or studying country. A new bank relationship and account must be set up to accept working or studying country salary payments and to pay rent and utility bills. Initial accommodation deposits sometimes have to be paid in cash because of the lack of a local account. Home country payment cards are often not accepted by working or studying country merchants again obliging Mobile Citizen Europe to pay in cash. Finally, money transfers direct to family and relatives at home, or to home banks, can be expensive and take time to reach their destination. The figure below describes the additional benefits SEPA will offer to the **"European Mobile Citizen"**, those who work or study in one or several European countries.

Today - Pre-SEPA (2006)	Tomorrow - SEPA
• Multiple payment relationships – one for each working or studying country	• One bank in home country accessible throughout SEPA
• Few simple processes to pay rent deposits	• Low cost and predictable SEPA cross-border transfer services from home account
• No facilities for cross-border direct debits for rent and utility bills	• Home bank accepts direct debits from any SEPA working or studying country
• Limited facilities for cross-border salary payments from working or studying country	• SEPA credit transfers can be posted from country of working to home account
• High use of cash for all types of purchases	• Home bank issued payment card used for most higher value purchases in euro-area
• Money transfers to home bank or to family relatively complex	• Simple, common transfer service for all SEPA countries
• Limited choice of banks with full multi-country services	• Increased choice - new products and services with more competitive offerings

Figure 3.2: Today/Tomorrow - SEPA and PSD Impacts on the European Mobile Citizens

Under SEPA, a mobile European citizen will see a substantial improvement in his/her payment services, no matter where he/she works or studies. For those who so choose, they should be able to rely on one home account and one payment card which are accessible throughout SEPA. Salary payments and direct debits can be paid or posted under a predictable timeframe from the country of work or study to the home account. One home-issued payment card can be used for shopping and ATM cash withdrawal, and a simple standardised service will be available to workers for sending money home to family and relatives (and the reverse for students!). In addition the choice of services for the mobile worker or student is expected to grow as home country banks extend their services into the sector.

Millions of citizens work in more than one country

3.4 Owning or Renting a Home in another Country

Many European citizens now have holiday properties outside their home country, which they often let out, use for extended holidays, or intend for retirement. Similarly, many rent properties in other countries for extended time periods. However today the transactions associated with renting or buying a home in another country, paying the agent, solicitor and taxes can be time consuming. Many citizens open a bank account in the same country as the holiday property because their domestic account cannot easily support national transactions in another country. Similarly, there are currently limited facilities for receiving cross-border direct debits to pay rented or holiday home utility bills, taxes and other services. Finally, the process of transferring salaries, pensions and letting and rental fees to either the home country account or the holiday or rented country account, can be complex and subject to delays.

Today - Pre SEPA (2006)	Tomorrow - SEPA
• Sometimes complex payments processes for property purchase or rent, legal, agent and refurbishment costs	• Predictable SEPA-wide transfer process for payments anywhere in SEPA
• The usual remedy is to open an additional account in second home country	• Home bank may serve second home country
• No facilities for cross-border bills payment	• Second home utility or tax bills direct debited to home country account
• Extended times for transferring salaries, pensions and letting fees to holiday country account	• Standard transfer time to home country account using common account codes
• Limited choice of home banks offering services tailored to holiday home owners and renters	• Many new home banks offering new targeted SEPA products and services

Figure 3.3: Today/Tomorrow - SEPA and PSD Impacts on Holiday Home Owner

The holiday home owner or renter will benefit greatly from the introduction of SEPA. There will no longer necessarily be a need for accounts in two countries. The process of making payments for deposits, legal or agent's fees, can be rapidly conducted from the existing home account. Direct debits for rents, utility bills and taxes can be rapidly directed cross-border to the home account. Credit transfers for letting fees can be similarly processed. Finally, SEPA may also increase the number of banks offering products and services that support second home owners or those living in other countries. The choice of banking services and new banking products will therefore increase.

3.5 Small and Medium Sized European Merchant

SEPA will have an important impact on small and medium European merchant's approach to card acceptance and the services they receive from their banks. Those that have a high tourist or adjacent border spend will see significant change and improvement as will those that currently have to accept high volumes of cash. The typical merchant, restaurant or hotel located in the main street within a popular town or resort is generally satisfied with the payment services provided by their banks. However, when looking at different European markets, some aspects of payments processing vary substantially, again because each country has independently developed its national payment card acceptance and processing practices over the decades.

Those who have a high tourist or adjacent border spend will see significant change

For example, some countries' consumers have a cash payment culture. Thus merchants continue to accept and hold cash, run a greater risk of theft or robbery and can incur higher bank fees for cash deposits and processing. In addition, low payment card usage by customers reduces the cost efficiency of the card terminals purchased or rented by merchants. A comparison of these and others of "Today's**"** market payment acceptance practices is compared with those under SEPA "Tomorrow" within the table below.

Today - Pre-SEPA (2006)	Tomorrow - SEPA
• Variable national cash repositioning strategies. High costs of processing cash and relatively low volume electronic transactions. Continued cash theft risk.	• Gradual increased use of cards through a SEPA wide repositioning plan from euro cash to euro payment card resulting in less cash holding and improved security
• High terminal national software costs and low usage makes transaction costs high	• Lower terminal and transaction costs from use of standard common application software
• Unable to accept all cross-border domestic payment cards – loss of sales	• Consistent acceptance – all payment cards supported by all terminals across SEPA leading to increased sales
• Different processes for exception items/redress – high cost, complex training	• Lower operational costs through standard frameworks for exception items and for consumer redress
• Different methods of cardholder authentication (signature for credit; PIN for debit). Variable chip implementation	• Mandated implementation of EMV chip on all cards and use of PIN for both debit and credit, reducing fraud
• In several countries multiple terminals from different acquirers – complexity - high POS costs	• One terminal able to serve all acquirers, substantially reducing footprint costs and operational complexity
• Many different processes for managing and reporting fraud	• Harmonised framework for fraud management and reporting
• Limited choice of acquirers in some nations	• Opening up of markets for acquiring services, greater choice, new products

Figure 3.4: Today/Tomorrow - SEPA and PSD Impacts on Merchant Europe

With the introduction of SEPA, many of the national practices that are specific to each domestic market will become more consistent. Card schemes will move to more standardised approaches. For example, there will be a SEPA wide cash repositioning campaign to encourage and incentivise consumers and merchants to migrate to payment cards and electronic payments, increasing the volume of electronic transactions, simplifying back office processes and reducing the costs and risks of handling cash. Card acceptance will be extended, enabling domestic only payment brands to be supported by all terminals across the EU. In addition, all SEPA approved cards must be chip based (ie. the magnetic stripe will not be SEPA compliant) and will be authenticated using PIN rather than signature, improving POS throughput and significantly reducing cardholder fraud. Terminal costs are expected to decline as a common, lower cost SEPA terminal application is developed and implemented. Also, a new common EU wide legal framework will be developed for exception items and consumer redress. Finally, by moving to common standards SEPA will open up the market for acquiring services leading to increased choice of providers and the development of many new products and services.

Terminal costs will decline through lower cost applications

3.6 Large European Merchants

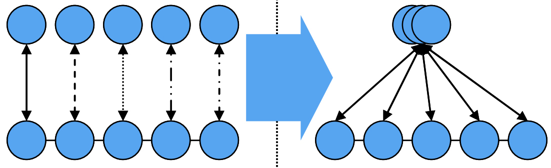
	Today pre-SEPA (2006)	Tomorrow SEPA
Banking Relationships Country		
	Many to Many Relationships • Each country entered requires separate banking relationships • No common processes • Each country requires different payments platforms • Remittance data structure per country	Few to Many Relationships • Fewer banking relationships • Single harmonised EU-wide processes • One common platform • Same remittance data structure

Figure 3.5: SEPA's Impact on Large Merchants

Because of today's fragmented payments infrastructure, Europe's largest merchants face significant problems in developing common internal systems and processes for their operations in European markets. Current EftPos acquiring and acceptance processes are very specific to each national market with the result that large merchants incur high costs in developing and operating multi-country infrastructures. Many large supermarket chains have internal systems that are specific to each country and, in addition, cannot benefit from economies of scale and the pooling of transactions. A summary which compares "Today's" processes with the benefits delivery by SEPA "Tomorrow" is provided in the table below.

Large merchants face significant problems in developing multi country platforms

Today - Pre-SEPA (2006)	Tomorrow - SEPA
• Many home platforms not suited for multi-country operations	• One internal platform supports all SEPA countries with common standards and processes
• High cost of building multi-country integrated ePOS/EftPos infrastructures deters cross-border expansion	• Expansion of business no longer constrained by payments processing platform
• Difficult to leverage POS volumes and implement a terminal strategy for all countries	• Common terminal application – enables lower cost terminals and one terminal per POS
• No facilities for cross-border domestic payment card processing	• All SEPA acquirers can offer EU wide card acquisition – increased choice
• Multi-country acquirer/ banking relationships complex to support	• Potential for one acquirer relationship for SEPA markets in home country
• Complex and costly treasury management operation	• One relationship enables streamlined processes for all nations
• Lack of SEPA-wide standards for clearing and settlement	• Common standards for both card payments and for SDD and SCT clearing and settlement – lower costs
• Many barriers to entry limiting the choice of acquirers	• Removal of many commercial and technical barriers to entry and an increase in choice of acquirers
• Limited choice of processors in many countries and card schemes linked to interbank companies. High costs reflecting smaller national volumes	• Separation of card schemes from processing, creating many new pureplay processing entities. Increased processor consolidation leading to larger operations, lower costs through economies of scale

Figure 3.6: Today/Tomorrow – SEPA and PSD Impacts on Large Merchants

All of the SEPA benefits delivered to the small and medium merchant will also apply to the large top 100 merchants in each member country who often process over 50% of each country's card payment transactions. Large retailers will see significant benefits through lower processing costs as a result of a common euro-area wide cash repositioning strategy. Similarly, common POS processes for card acceptance will greatly simplify staff training and reduce the potential for errors. The consistent legal framework for disputes and exception item handling should also show savings in back office staff costs. Large merchants will also see significant savings in terminal costs and POS processes and infrastructures as a result of a single SEPA software application, the removal of multiple terminals and the introduction of common terminal to host standards.

Under SEPA Europe's largest merchants with multi-country operations will also obtain additional improvements over and above those of smaller players. The most significant is the use of a single internal ePOS/EftPos platform which will support payments processing for all countries and enable common systems for features such as mobile top-up (MTU), dynamic currency conversion (DCC) and bills payment (BP). This will eliminate multiple country specific systems. Cross-border business expansion will no longer be constrained. Multiple acquirer banking relationships can be reduced, because SEPA will enable combined payment card acquiring for euro transactions. Treasury operations can be streamlined and back office processes simplified as a result of common clearing and settlement for all countries. Finally, the number of banks offering acquiring services will increase and with increased choice new products and services will come. Similarly, separation of card schemes from processing entities will create many new specialised processors previously combined with interbank and scheme operations. This should lead to the opening up of the processing market, increased consolidation and reduced transaction fees through economies of scale.

SEPA will eliminate the need for multi country specific processes and platforms

3.7 Large European Corporates and Public Administrations

Large multi-national corporates, utilities and public administrations, have long been seeking improved and lower cost solutions for processing high volume payments within their domestic and European markets. Large corporations that operate across Europe want the full set of business to business (B2B) payment instruments to collect revenues from customers and to pay suppliers in many countries for goods and services. These companies are self-sufficient and work closely with their banks to build highly efficient payments processes in their domestic markets; however many want further improvements: single reach, more automation, improved Service Level Agreements (SLAs) and lower costs. In addition, citizens are increasingly mobile and wish their pensions and benefits to be paid where they live and not necessarily their native country.

Today - Pre-SEPA (2006)	Tomorrow - SEPA
• Different timescales and SLAs for payment processing in home and cross border markets	• One common timeframe and SLAs for payments for all countries resulting in improved cash flow
• Different schemes and standards for direct debits and credit transfers in each country	• Reduced costs through common SEPA credit transfer and debit schemes and standards. Opportunity for harmonised, secure and guaranteed remittance data (140 characters)
• Different processes and methods for direct debit mandate set up and first payment	• Common SEPA wide electronic mandate process including automatic first payment initiation within 5 days
• Different commercial frameworks for payments settlement in several nations	• Common legal framework and certainty that will apply to all countries
• For multi-country corporate B2B payments:	• For multi-country corporate B2B payments:
- Few single file submission solutions	- Single file submitted into any SEPA bank or clearing and settlement mechanism (CSM) to common settlement SLA
- High cost and complexity of supporting multi-country payments/treasury systems	- One home country system will support all operations – reduced infrastructure costs
- Lack of common standards, complex/costly reconciliation processes	- Common standards (use of IBAN) and processes with lower operational costs
- Bank accounts in multiple countries – no pooling or aggregation	- Fewer bank accounts and lower fees through pooling
• For multi-country B2C payments:	• For multi-country B2C payments:
- Lack of cross-border direct debits (utilities)	- Common ETS Scheme Rulebook lower costs for direct debits in SEPA
- Variable SLAs for clearing and settlement in each country	- Max 3 day clearing and settlement for clearing and settlement in SEPA
- Limited range of cross-border credit transfer services (pensions/benefits)r	- Common, predictable timeframes – improved SLAs for citizens
• Lack of choice of national or pan-European processing for high volume payments	• SEPA opens up market, schemes separated from delivery process – increased choice of processors. Product innovation through optional services added to core SEPA functionality

Figure 3.7: Today/Tomorrow - SEPA and PSD Impacts on Large Corporates

SEPA will introduce a substantially improved payments environment for large corporates. A major benefit will be one single process for all incoming and outgoing payments, both national and cross-border. The opportunity for harmonised, guaranteed, and secure remittance information (both structured and/or unstructured) across Europe will be a major benefit for both invoicing and reconciliation. Standard, harmonised Scheme Rulebooks for direct debits and credit transfer, plus consistent PSD legal framework for exception processing, will improve efficiency and reduce back office reconciliation costs.

Corporates with operations in several countries will be able to create (and receive) a single aggregated file for all payments (domestic and cross-border) and submit these to a single institution within standard clearing and settlement timeframes. There will no longer be a need for multiple files prepared to different standards. This will remove costly multi-country payment platforms and enable a migration to one common, consolidated system in the head office country. Common file standards will apply to all payments (and the use of IBAN) resulting in fewer exceptions and higher STP. The number of banking relationships for effecting and receiving payments can be consolidated. Banks will offer extended reach and support SEPA-wide operations, reducing administration costs and improving efficiency.

There will no longer be a need for multiple files each prepared to different standards

Entities with large volumes of direct debits and credit transfers will be able to shop around for banks able to clear and settle at best service, and lowest costs, inclusive of additional bank services, in any country. The new standard for pan-European direct debits will offer a much improved service for corporates wishing to receive payments from from customers working or living across Europe. The new standard for SEPA euro credit transfers will enable predictable transfer times throughout SEPA, again improving the service to corporate customers.

SEPA will deliver similar benefits to governments and public administrations, utilities and other organisations that make substantial payments within national and pan-European markets. Services to citizens will be enhanced and pensions, social security and other benefits paid within a clear timeframe to a best practice standard.

3.8 Small and Medium-Sized European Corporates

SEPA will also impact small and medium-sized corporate enterprises, particularly those that trade cross-border. As in the merchant sector, the mass of small and medium sized organisations receive highly efficient payment services from their banks within their domestic markets. However the typical European corporate sometimes encounters problems when handling cross-border payment transactions. The table below provides a comparison of today’s processes with those that will apply when SEPA is implemented.

Today - Pre-SEPA (2006)	Tomorrow - SEPA
• Unsure when selling cross-border of risk and legal framework for payments – inhibits growth	• New consistent legal framework for payments and redress
• Variable costs, limited reach and delays in cross-border: – payments by customers – payments to suppliers	• Common settlement timeframe for domestic and cross-border receipts and payments with no value dating, separate transaction fees, improved account codes and SEPA-wide reach
• Lack of cross-border direct debits limits ability to sell and collect payments outside home country	• Standard SEPA-wide scheme and Rulebook with predictable settlement timeframes for regular and once only direct debit payments
• Complex processes for direct debits, credit transfers/salary payments/mandate processing in several home markets	• Standard SEPA-wide scheme for home country with predictable settlement timeframes, common simplified electronic mandate processing improving cash flow and lower costs of processing.
• Limited choice of payment services for corporate customers in some markets	• Increased choice and ability to shop around for lowest cost accounts in any SEPA country

Figure 3.8: Today/Tomorrow - SEPA and PSD Impacts on European Corporates

Under SEPA small businesses will have greater confidence when trading cross-border as a result of the implementation of the new Payment Services Directive (PSD) for payments. A consistent legal framework for payments will introduce much improved certainty and clarity. SEPA wide transfers to pay for sales and purchases will become more efficient through the implementation of a harmonised timeframe, reaching any account within SEPA.

Common IBAN/BIC account codes plus electronic mandate processing will dematerialise paper and reduce back office costs

Similarly, a common SEPA-wide full reach direct debit service will be introduced with a common IBAN/BIC account codes and an electronic mandate processing feature with the potential to dematerialise paper records thus reducing back office costs. Within the home market these same standards, new account codes and improved service levels will apply to domestic direct debits and direct credits enabling, as an example, staff salaries to be paid to a consistent and common timeframe. Finally, SEPA will open up the market for payments, offering smaller enterprises greater choice of payment products, encourage innovation and new product offerings.

4 DESIGNING THE COMPONENTS OF SEPA

4.1 Introduction and Summary

The following paragraphs describe, in further detail, the features and design criteria used in developing the content of the two new SCT and SDD Electronic Transfer Schemes and the SEPA Cards and Cash Frameworks. Charts and models show the relationships between the parties and how the balance between co-operation and competition will be maintained.

It is important to appreciate the architectural design of the SEPA deliverables which is based on different layers of activity. First there will be the SEPA products and services of banks which the customer directly experiences, uses and pays for. The second layer is the scheme layer which defines the basis on which banks co-operate to provide standards, rules, and interoperability. The third layer is the processing infrastructure between banks and providers of payment services.

The SEPA products and services of banks will be defined, delivered and described by individual banking institutions on the basis of competition. The figure below provides a summary of the key differences between the other two layers, scheme and infrastructure.

A Scheme	Processing Infrastructure
• A set of interbank rules, practices and standards for the execution of euro payment instruments within SEPA • A commercial framework which enables the authorisation, clearing and settlement of payment transactions • A brand, logo or trademark to enable widespread acceptance, where applicable • Rules which define the roles and responsibilities of banks (originators, beneficiaries, issuers, acquirers) and the relationships with each other, consumers and corporates, merchants and public administrations • Rules which define the operational service quality, service levels, settlement times, exception item processing • Standards which define the basis on which transactions and payment instruments inter-operate in a secure manner	• The core operational service provided to enable authorisation, clearing and settlement • The technology delivery system and network entities which support a payment scheme • The technology platform on which the clearing and settlement process operate • The customer support operations which support banks, corporates, merchants and public administrations • The development and maintenance functions that support the technology applications, IT platform and networks authorisation • Functions include clearing and settlement systems, card transaction switches and networks, merchant accounting and back end processes as operated by banks, interbank companies and commercial processors and central banks (settlement)

Figure 4.1: Comparison of Components of Generic Payment Schemes and Processing Infrastructures

4.2 Designing Two New Electronic Transfer Schemes (ETS)

The two new Electronic Transfer Schemes (ETS): SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) are the deliverables of the EPC who developed them from 2004 through to 2006. Both schemes were specified to provide core features to customers, banks and infrastructure service providers, drawing on knowledge and data gathered from bank's day to day contact with their customers. A different methodology has been adopted for the design of these two schemes compared to that used for the cards arena (see Figure 4.2). It should be noted that some parts (e.g. clearing and settlement functions) of the PE-ACH/CSM infrastructures and card processing infrastructures could be executed by the same organisation and/or infrastructure.

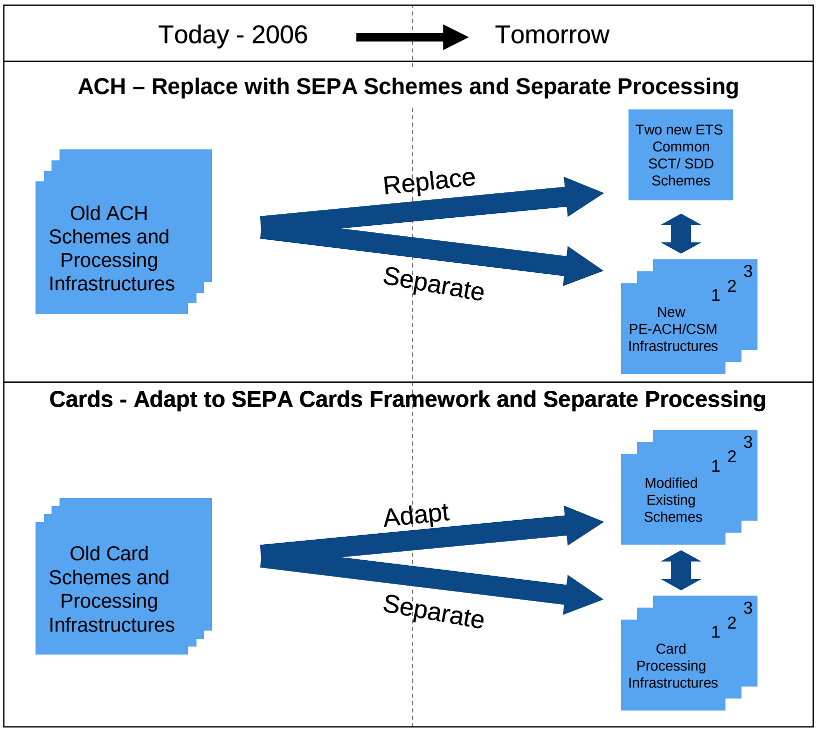


Figure 4.2 SEPA Schemes and Cards Framework Design Philosophy

For the SCT (see Figure 4.3 for schematic) and SDD (see Figure 4.4 for schematic) four key domains of activity were identified during the design to ensure an optimal balance between competition and co-operation amongst banks, namely:

i) **Enable banks to offer their own products and services on the basis of competition.** Banks will provide a rich variety of payment services using the core functionality of the Schemes as a basis. Banks are competing on core payment services (pricing, service level, and reporting) and on additional optional services. They are free to add advanced features and practices and integrate their payment services into the broader range of banking services provided to their various customer segments.

ii) **Create Common Interbank Schemes.** In the second domain of 'scheme' it became clear that it is necessary to undertake a full scheme **replacement** strategy. The concept is that the various national schemes need to be replaced by one common business Rulebook, data sets and standards. The result will be that the currently disparate national schemes will disappear and be replaced by common SEPA Schemes. These Schemes with common business rules and standards will enable banks to compete for clients and develop and market products and services across SEPA, rather than just within the home markets, as at present.

The following paragraphs provide a summary of what the SEPA Credit Transfer and SEPA Direct Debit Schemes will enable banks to deliver to users and how they are structured in terms of the 'four-corner' model.

For credit transfers, the originator (payer) completes a credit transfer instruction and forwards it to the originator's (payer's) bank by any agreed means [2]. The originator's bank receives and checks this, and rejects erroneous instructions, then the originator account is debited and the credit transfer is sent to the clearing and settlement mechanism (CSM) [3].

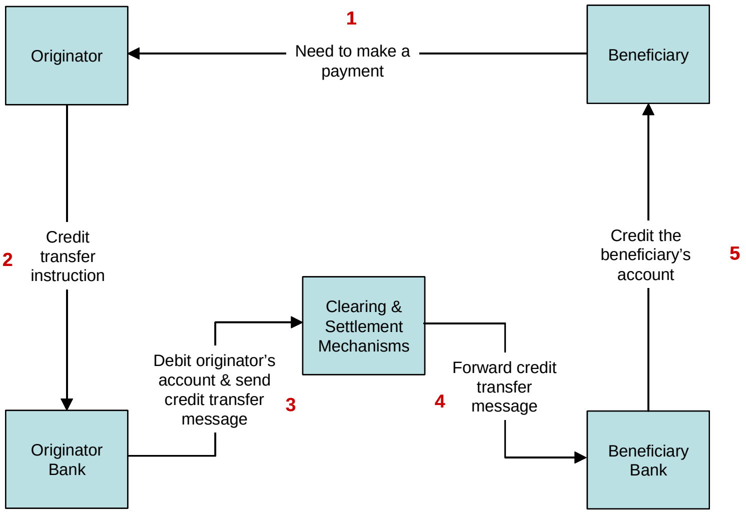


Figure 4.3: SEPA Credit Transfer Scheme Relationship Model

The CSM forwards the credit transfer message to the beneficiary bank and settles the amount of the transfer [4]. The beneficiary's bank receives the credit transfer message, checks the credit transfer message and credits the account of the beneficiary [5].

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

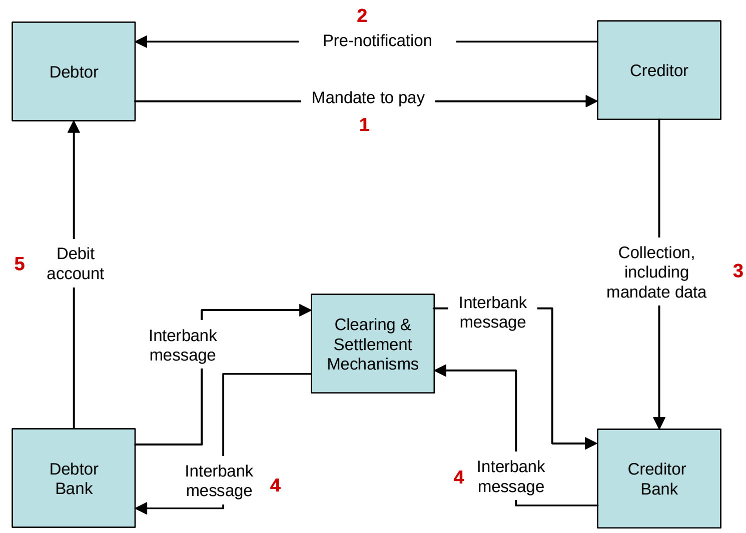


Figure 4.4: SEPA Direct Debit Scheme Relationship Model

After receiving the signed mandate, the creditor may start to initiate collections. Before a collection the creditor must send a pre-notification to the debtor [2], unless otherwise agreed between the two parties. The signed mandate must be stored by the creditor as long as the mandate is valid. The mandate-related data are transmitted in electronic form along with each collection [3].

The debtor bank may reject a collection for technical reasons prior to settlement. On the due date itself, the debtor bank must debit the debtor's account if the account status allows this, if not a return is generated. The debtor is entitled to obtain a refund from the creditor if he/she disagrees with the collection for reasons covered by the legal requirements defined in the PSD, for which he must send the request to the debtor bank within a period of six weeks. This refund does not relieve the debtor of its responsibility to resolve the disputed collection with the creditor.

Further information on the detailed operation of services based on these electronic transfer schemes will be provided by banks to their customers well before the launch of the new SEPA insturements.

iii) **Competitive Processing Infrastructure.** The third domain is the separated processing infrastructure which - in the SEPA ECT and EDD Rulebooks - is described as Clearing and Settlement Mechanisms (CSM). In the new SEPA environment the market can elect various optional CSM models, all of which must be SEPA scheme compliant, namely:

- **PE-ACH.** An ACH that is or is part of a Pan-European ACH, a SEPA-wide, country-neutral clearing organisation, providing reach to all banks in the SEPA Schemes, and which banks from anywhere within SEPA can elect to use on the basis of price and service (see Figure below for attributes).
- **SEPA Scheme-Compliant ACH.** An ACH capable of processing SEPA Scheme transactions within a defined market and which may or may not (yet) be in transition to a PEACH (see Figure 4.4 for features).
- **Multilateral CSM**. A de-centralised form of multilateral clearing and settlement (not an ACH structure) capable of processing SEPA Scheme transactions within a defined market.

- o **Bilateral.** A de-centralised form of bilateral clearing or settlement (for example, correspondent banking).
- o **Intra-Bank/Intra-Group.** An intra-bank and/or intra-group clearing and settlement arrangement, typically where both the originator/creditor and beneficiary/debtor have their accounts within the same bank or group.

Operating within a set of principles, this is a competitve domain as between infrastructures within which banks may cooperate to operate a particular infrastructure that suits their needs.

Policy Framework for a PE-ACH
• Country neutral in terms of access, governance, rules
• Guaranteed open and transparent access criteria for all SEPA banks in SEPA
• SEPA-wide reachability to all SEPA banks, either directly or indirectly
• Full interoperability and clearing and settlement services for both SCT and SDD
• Clear statement of services, no barriers to entry
• Open governance structure
• Pricing fair, transparent, non discriminatory, scaled – national and SEPA payments the same
• Robust operational rules for risk management, clearing, settlement, execution, security

Figure 4.5: Key Attributes of a PE-ACH

To summarise, the SCT and SDD principles have enabled the creation of a common set of core rules and processes for the two new ETS schemes. The new structure has also been designed to fit into the three layer model which will ensure competition by banks for customers and by the processing sector for services and networks. This framework is summarised below.

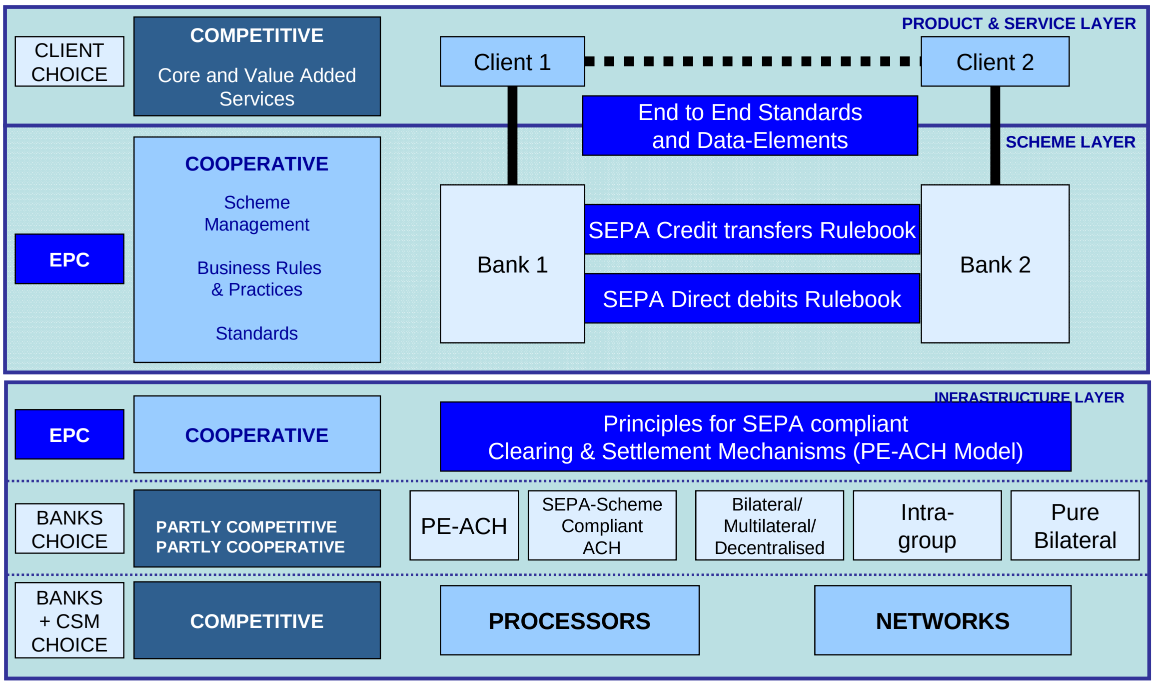


Figure 4.6: Three Layer Design Model for New Electronic Transfer Schemes

The business architecture of the SEPA deliverables is based on several different layers of activity. First there will be the competitive bank layer in which banks provide SEPA products and services for customer use. The second layer relates to the scheme co-operation. This defines the basis on which banks co-operate to provide standards, rules and interoperability. The third layer relates to the processing infrastructure. This layer is primarily competitive as between various competing channels, although communities of banks can and do cooperate to meet common needs.

Traditionally national structures often have the commercial aspects of the "payment scheme" entangled within the rules for the operational company that delivers interbank payment processing. Under SEPA the new schemes and their rules, will be separated from the operational interbank service provider.

Each common scheme Rulebook details core and basic SCT and SDD services to enable a common level of service to be delivered to users within predicable timeframes for all ETS services within SEPA The new Rulebooks will be implemented by banks and processors (PE-ACH or other CSM's) and services delivered on this basis across Europe. A summary of the key criteria on which each Ruleboook was constructed is provided below.

SEPA Schemes - Design Criteria
• Separates scheme governance from underlying processes
• Encourages competition among banks in products and services
• Consists of one common "all countries" framework
• Enables SEPA-wide interoperability and universal reach
• Builds highly automated, efficient, no exception, services to common standards
• Stimulates processor and network provider choice and market consolidation
• Enables highly secure, robust and resilient infrastructures
• Removes disputes, inhibitors and barriers in national markets
• Defines the roles and responsibilities of PE-ACH and other CSMs
• References the Payment Services Directive
• Enables implementation by launch date of 2008 and full replacement of existing solutions from 2010

Figure 4.7: Design Criteria for SEPA Schemes

4.3 What the New Electronic Transfer Schemes Deliver

A summary of the major components and features of the two new schemes is provided below.

SEPA Credit Transfer	SEPA Direct Debit
• Full SEPA-wide reach	• Full SEPA-wide reach
• Transfers in euro initiated from customer accounts	• Recurrent and one-off payments in euro
• Basic credit non-urgent transfers	
	• Both parties (Creditor and Debtor) hold accounts with SEPA Scheme Participants
• Uses IBAN and BIC as account codes	• Uses IBAN and BIC as account codes
• Based on UNIFI (ISO 20022) XML standards	• Based on UNIFI (ISO 20022) XML standards
• Common maximum 3-day time cycle (subject to PSD provisions)	• 2-day time cycle unless it is a first payment when 5 days are necessary for set up and first payment
• Accommodates secure customer reference data	• Accommodates secure customer reference data
• No deductions from principal amount – separate fees	
• No value limit at scheme level (sending banks set own limits)	• Limit will be set for C2B payments.
• Receiving banks accept payments any value	
	• Specific rules for “due date” - “settlement date” - “debit date”
	• Clear specification of mandate data and contractual terms • Dematerialises mandate – transmission to debtor bank
• Reflects FATF SR7 regulation	
• Common rules for clearing and settlement	• Common rules for clearing and settlement
• Comprehensive rules for rejects and returns	• Comprehensive rules for rejects, refunds and returns
• Ability to provide additional optional services	• Ability to provide additional optional services

Figure 4.8: Summary of New Electronic Transfer Scheme Features

EPC is aware that members of the European banking industry are currently working on a priority credit transfer solution for same-day value payments. This will build on existing channels for time-critical payment execution and will form a complement to the core credit transfer scheme.

4.4 Designing the SEPA Cards Framework

The SEPA Cards Framework (SCF) was developed during 2004/2005 by the EPC, working closely with banks as issuers and acquirers as well as the international and domestic card schemes.

Given the complexity of the cards business, the widely differing approaches adopted in the national card scheme of each country and the presence of the International Card Schemes (ICS), it was decided that unlike the new ETS schemes the EPC should not for many practical and cost reasons, build a new common card scheme and Rulebook. As a result, it was agreed to develop a policy document called the "SEPA Cards Framework" which would state how issuers and acquirers and card schemes and operators must **adapt** their current operations to comply with the SEPA principles for card payments in euro.

Card issuers and acquirers and card schemes must adapt to comply with SEPA

In a similar manner to the design of the ETS Rulebooks, the card experts developed a three layer model to enable competition between all of Europe's card schemes, banks, processors and network providers but within a consistent framework that defined how the parties and players should interact. Thus international, national and new schemes will compete for members, banks will compete for customers and sell products and processors/networks will compete to service banks within a three layer model (see below).

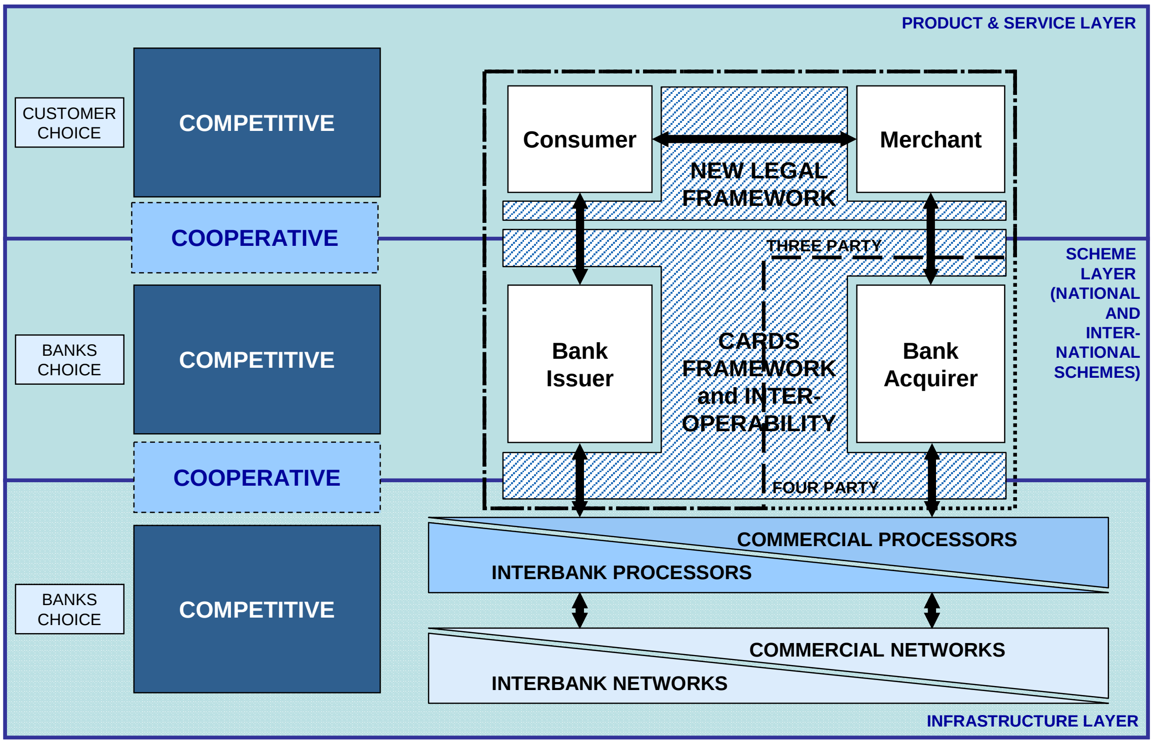


Figure 4.9: Three Layer Design Model for Card Schemes

Three key areas for card scheme adaptation were identified and approved by the EPC at the commencement of their work as follows:

i) **Improving Choice**. First, as with ACH's, each country operates a different national payment card infrastructure. Each country applies different commercial frameworks standards, formats and protocols, which can sometimes limit competition and transparency. The SCF policy had to ensure national schemes adapted their existing commercial frameworks, standards and processes to "best practice" guidance would also ensure markets were accessible and competition strengthened.

ii) **Scheme Interoperability.** Second**,** for credit cards international interoperability is already well advanced, through the international standards developed by Visa, MasterCard, American Express and Diners Club and are accepted in many counties worldwide. However, national payment cards often lack this interoperability and are not accepted by most of Europe's merchants outside their domestic markets. So the SCF policy statement had to ensure interoperability of all cards by merchants in any country within the SEPA zone, as well as defining the need for new common standards and processes.

Three key design principles, adaptation, inter operability, scheme separation from underlying processing infrastructure

iii) **Competitive Processing Infrastructure.** Third**,** as with the ETS payment instruments, most of the national payment card and ATM schemes are embedded within the payment card infrastructure's operating companies. A decision was made to recommend the separation of card and ATM scheme from processing with the objective of increasing both competition on the card scheme layer and competition on the infrastructure layer.

4.5 What the SEPA Cards Framework (SCF) Delivers

A summary of the major policy scope and features described within the SCF is provided below.

The SEPA Cards "Adaptation" Framework – Policy Scope
• Separates scheme governance from underlying processing
• Removal of legal, technical and commercial barriers and limitations, both national and EU wide
• Open non-discriminatory scheme membership
• Single, pan-European licence
• Open and transparent pricing policies
• EMV implementation: Chip and PIN implementation shift for all cards (national and ICS) by end 2010
• A common approach to fraud and reporting
• Standardised processes and procedures for card acceptance and certification
• Convergence of scheme rules for common non-competitive aspects
• References the Payment Services Directive
• Common, consistent experience for all cardholders at POS and ATM
• Cardholder choice of card type accepted
• Merchant choice of acquirer, scheme and terminal
• Interoperability and all merchant SEPA card acceptance

Figure 4.10: SCF Key Ingredients to Adapt National Card Schemes

The objective is that banks, as owners of each of the national card schemes, will commit to the SCF's policy statements and decide how they will adapt to meet the SCF principles.

The Framework covers the use of "general purpose" cards for payments and cash acquisition within SEPA. The Framework defines the environment within which payment card transactions are carried out. Details of the roles of acquirers, issuers and ATM owners within the Cards Framework are provided below.

- **SEPA Acquirer Roles**. A SEPA compliant acquirer (or equivalent) is one that acquires (or otherwise processes) general purpose SEPA compliant euro payment card transactions within the SEPA. Under SEPA acquirers are expected to perform the following:
  - Enable a consistent cardholder experience at the POS following the transaction flow defined by the relevant scheme.
  - Communicate the benefits of, and offer to, their merchants (from 1st January 2008) the acceptance at their terminals of transactions generated by one or more SEPA compliant card schemes.
  - Remove any barriers that may exist which could limit their merchants accepting multiple schemes and co-branded schemes at their terminals.
  - Where several payment applications are contained in the same card and are supported by their terminal, enable cardholder choice of which payment application they use.

- Promote to their merchants the benefits of migrating to EMV certified terminals with PIN pads.
- Complete the migration to EMV by the end of 2010 (with the exception of the environment in the Netherlands, where existing contractual arrangements with the Dutch merchant community supersede this).
- Implement the SEPA technical standards, including cardholder to terminal interface, card to terminal (EMV), terminal to acquirer interface, acquirer to issuer interface.

- **SEPA Card Issuer Roles**. A SEPA card issuer is one that issues general purpose SEPA compliant cards capable of being used for payments and/or cash acquisition transactions in euro. SEPA compliant card issuers are expected to perform the following:
  - Offer their customers (from 1st January 2008) SEPA compliant payment cards.
  - Complete the migration to EMV by 2010.
  - By the end of 2010 enable all their general purpose cards to become SEPA compliant.
  - Communicate to their cardholders the benefits of SEPA compliant cards.
  - Implement SEPA technical standards, including cardholder to terminal interface, card to terminal (EMV), acquirer to issuer interface.
- **SEPA ATM Owner's Roles**. A SEPA compliant ATM owner is one that acquires (or otherwise processes) general purpose SEPA compliant euro cash withdrawal transactions at ATMs within the SEPA. SEPA compliant ATM owners are expected to perform the following:
  Enable a consistent cardholder experience at the ATM following the transaction flow defined by the relevant scheme.
  - Ensure their ATMs accept cards of all schemes of which they are participants.
  - Complete the migration to EMV by the end of 2010.
  - Enable their ATMs to offer, as a minimum, the national language(s) and English.
  - Where several cash withdrawal applications are contained in the same card and are supported by the ATM, enable cardholder choice of which application they will use.
  - Implement SEPA technical standards, including cardholder to ATM interface; card to ATM (EMV); ATM owner to issuer interface.

It should be recognised that the acceptance of a card at any given termnal is ultimately dependent on the decision of a merchant to accept that particular card.

4.6 The Single Euro Cash Area Framework

Given the successful introduction of euro banknotes and coins, the scope of the changes planned for cash have been more narrowly defined and have focused as a first phase on best wholesale practice for distribution and recycling.

The plans for the Single Euro Cash Area (SECA) have been developed in close consultation with the Eurosystem Bank Note Committee, banks and other key players. The objective of SECA is to create, with the Eurosystem, a level playing field whereby the basic cash functions performed by each of the National Central Banks (NCB) in the euro-area are interchangeable, ie. there is a common level of service and common processes are followed by all euro-area NCB's. In addition, SECA seeks to ensure the implementation of harmonised costs of distribution within the SEPA area. The effect will be to create a common infrastructure for cash (banknotes and coins) in all euro countries. The key initial design principles of SECA are summarised below.

Single Cash Area – Design Principles
• Consistent customer experience at all euro-area ATMs. Homogenous note, coin quality and features
• Consistent and homogenous wholesale and retail cash handling standards and processes in all national markets
• Improved services to merchants and increased competition among cash-in-transit companies (CIT)
• Removal of legal barriers and harmonisation of NCB conditions
• Improving the efficiencies of the cash supply chain – reducing number of steps
• Improving competitiveness through the use of alternative cash distribution models
• Access to any NCB in any national market and a cash supply network that ensures optimal reach
• Effective and efficient cash distribution management information systems for NCB's, banks and cash-in-transit providers
• Harmonised NCB responsibilities and service level agreements for debiting or crediting, deposits and withdrawals, opening hours, authenticity and quality control. Common rules for NCB bank fees and charges
• Stability of services and operational conditions to enable long term investment

Figure 4.11: Initial Cash Framework Design Criteria

These changes will primarily impact the cash wholesale market and, as a result, will impact NCB's, banks, CIT companies, merchants and corporates. However, the EPC also has in the pipeline a workplan to develop a framework for an approach to cash repositioning. This strategy will have the objective of encouraging consumers and merchants to migrate from cash to payment cards and other electronic payment instruments.

5 The Road Map - Timings and Implementation

5.1 Introduction and Impacts

Working closely with the EC and the ECB, the EPC has developed an ambitious Implementation Road Map which defines the key deliverables up to full implementation of SEPA. The Road Map will be developed in two stages. The design deliverables and the first high level implementation plan has already been agreed and more detailed implementation plans which define the timing of specific components are in train.

SEPA will impact euro payments made within its whole geographic area (see below). There is a priority implementation focus on the euro-area, currently 12 countries (13 from January 2007), because the change programme will radically impact their whole domestic payments environment. As new countries join the euro they will go through a similar process. From the beginning all non euro countries will be able to participate in SEPA when dealing with euro payments and may also choose SEPA standards for their own domestic currency payment instruments.

All non euro countries may chose to adopt SEPA standards for their domestic payments

The Payment Services Directive (PSD) created by the European Union will provide a harmonised legal environment for SEPA.

	All euro Payments	Domestic Payments	PSD Directive
euro-area 12	✸	✸	✸
EU New Member States	✸	✪	✸
EU Nations outside euro area	✸	O	✸
EEA	✸	O	O
Switzerland*	✸	O	O

Key: ✸ = Requirement to implement
O = Voluntary alignment
✪ = For new Member States domestic payments when they join the euro

Figure 5.1: SEPA and PSD Impacts

* Switzerland has joined SEPA, despite not being a member of EU/EEA, based on its commitment to respect the level playing field principle, to adopt the same legal provisions as apply to other SEPA countries and to comply with the Scheme Rulebooks on the same basis as all the other Scheme Participants.

5.2 EPC's SEPA Timeline

The EPC, working with the ECB, has drawn up a timeline based upon three deliverable phases: design and preparation; implementation and deployment and co-existence and gradual migration. There are also two key milestones: January 2008 and end 2010. These are shown below.

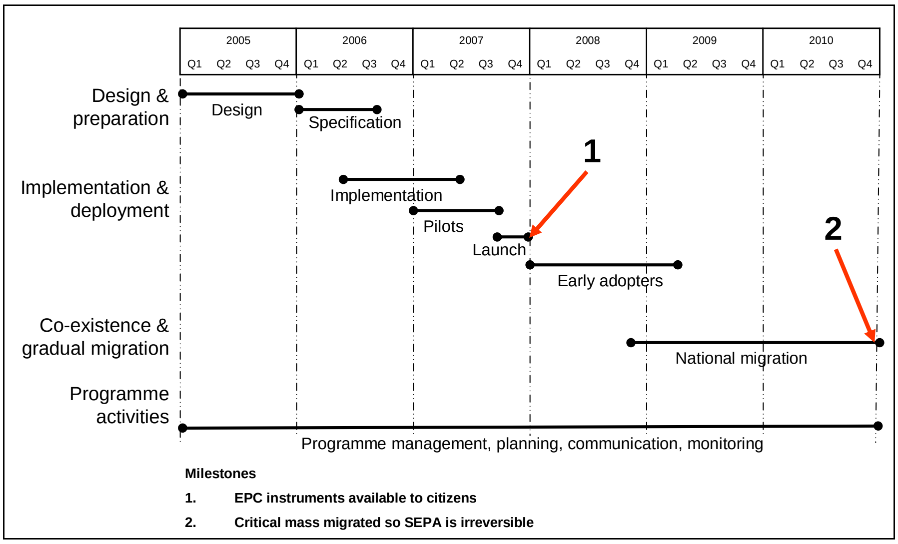


Figure 5.2: Timeline for SEPA-Implementation

- **Phase 1 – Design and Preparation** involves the design of the two new ETS and the Cards Framework during 2005. 2006 will focus on the development of standards and the specification of the technical detail and security.
- **Phase 2 – Implementation and Deployment** overlaps standards and specification with implementation, piloting and launch by the end of 2007 for the two new ETS.
- **Phase 3 – Co-existence and Migration** will be a transitional period in which there will be a co-existence of national and SEPA schemes and a gradual migration to the latter from January 2008 to end 2010 and beyond.

Running in parallel will be a number of activities, including planning programme management, communications and monitoring progress. Dependent upon the activity in question, responsibility for delivery may lie with a number of industry stakeholders: the EPC itself but also individual banks, national communities and their associations and the regulators.

From the customer perspective there will be two stages of SEPA. In the first stage, beginning 2008, following the deployment of the SEPA payment instruments, customers may use either old national or new SEPA payment systems for their domestic and cross-border euro payments. Since domestic instruments remain fully available, the banking system will maintain parallel infrastructures for SEPA and local payment instruments. In the second stage, pre-2010, domestic payment volumes will gradually migrate to the new SEPA payment instruments.

According to a joint statement in May 2006 the ECB and the European Commission expect that 'a critical mass of national credit transfers, direct debits and card payments should have migrated to SEPA payment instruments by the end of 2010. The EPC declared in its 17 March 2005 declaration ('Crowne Plaza Declaration') that it is convinced that a critical mass of transactions will be migrated by end 2010 by market forces and network effects.

6 ROLES AND RESPONSIBILITIES FOR SEPA IMPLEMENTATION

6.1 Introduction and Summary

SEPA will be successfully implemented based on a solid organisational structure within which all the players and stakeholders understand their roles and can co-operate and interact. It is important, therefore, to clearly outline the responsibilities and relationships of all the parties who will be concerned with the implementation and the further development of the SEPA concept.

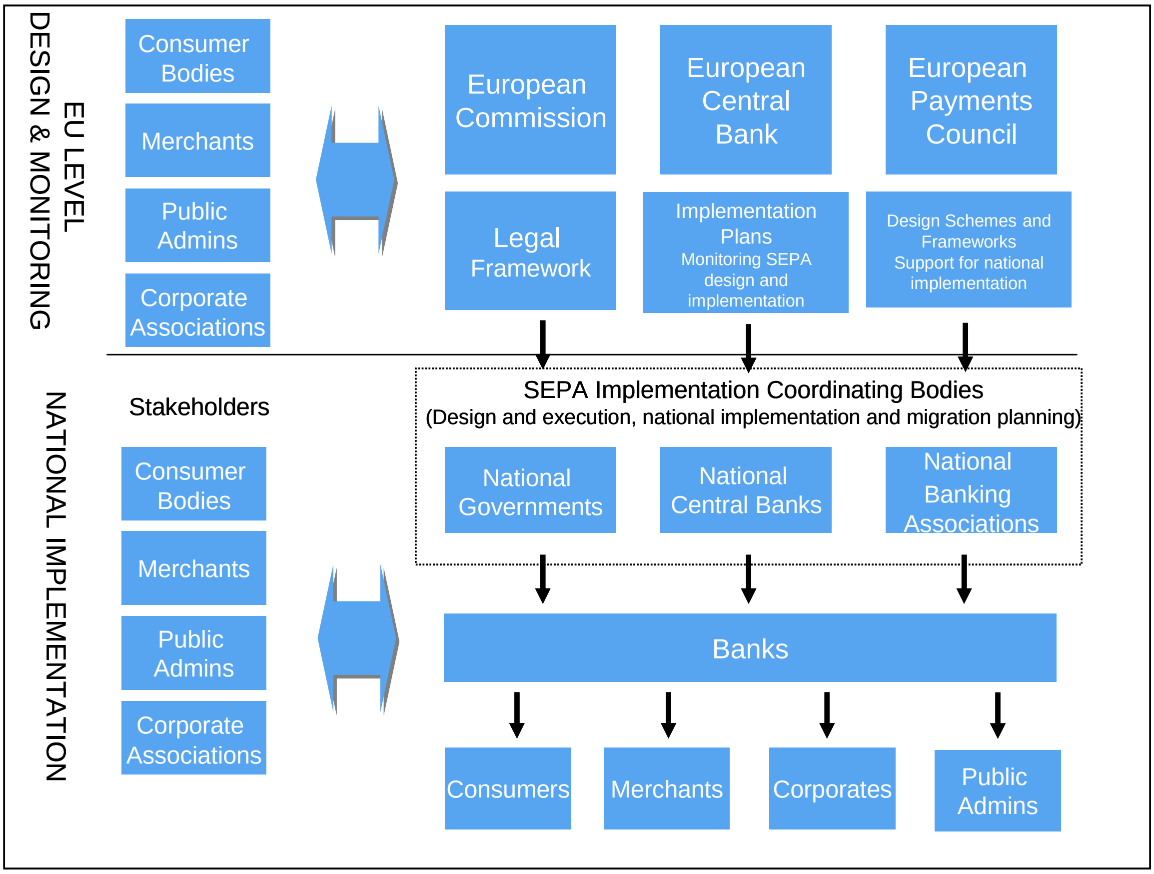


Figure 6.1: Implementation - Roles and Responsibilities

6.2 The Role of the EC

As the political driver of the SEPA concept, the EC, and its DG Internal Market and Services, have the critical role of providing the foundations for SEPA by ensuring the approval of the PSD by the European Parliament and European Council. In addition, the EC holds responsibility for the overall economic integration of the EU countries and the implementation of the Lisbon Accord. DG Internal Market also has the continuing role of helping to remove barriers and inhibitors, improving choice, and introducing harmonised rules and processes to replace those that are country specific. The EC is also expected to provide "SEPA thought leadership" and encouragement to all the parties as the concept is developed and implemented.

6.3 The Role of the ECB and the Eurosystem

As a co-initiator of SEPA, the ECB and the Eurosystem perform to a certain extent a similar role to that applied during the implementation of the euro with, again, a specific focus on the euro-area. The Eurosystem, coordinated by the ECB, has set the SEPA objectives and the high level statement of requirements. It consults with, and draws on, input from the SEPA stakeholder groups. The ECB also has the role of monitoring the EPC's progress in designing and specifying SEPA and attends EPC meetings. The Eurosystem produces an annual review of progress. Through the Eurosystem, the ECB also has the task of stimulating each central bank's role in coordinating national implementation of SEPA. Similar to the EC, the ECB also has a responsibility for SEPA leadership and also for regular liaison and communication with the various stakeholders and industry associations with a special focus on supporting successful standardisation. Finally, the ECB has responsibility for delivery of TARGET2 startomg November 2007 (first window), which will be an essential building block for settlement of SEPA payments and for other euro payments (money market, forex, securities).

The ECB will play a key role in SEPA leadership

As with euro implementation, the Eurosystem has a crucial role in making SEPA a success. Each national central bank will work together with the ECB and the respective national committees to ensure that SEPA becomes a reality. In each national market the national central bank is expected to draw together the banking industry, governments and public authorities and stimulate and support the start-up of national SEPA implementation plans and organisations. The Eurosystem is also expected to promote the proposition that European and national public authorities (and their agencies) become "early adopters" of the new payment instruments. Each national central bank will also have a pivotal national role in helping resolve misunderstandings, facilitating the simplification of processes and orchestrating the comments of banks, merchants and corporates.

6.4 Role of the EPC

The EPC is the third co-owner of the SEPA concept, with the brief to focus on design, specification and policy relating to SCT, SDD, cards and cash. As already described, in order to accomplish the ambitious deliverables timetable the four EPC Payment Instrument Working Groups (PIWGs) each have responsibility, not only for delivering the workstreams and key deliverables that underpin the SEPA programme, but also to make implementation recommendations to the EPC Plenary.

The EPC is building a significant programme of management and communications for implementation. It has developed a formal SEPA-level programme management function, which will monitor the overall programme and interdependencies, provide a risk and issues management framework and produce consolidated progress reporting. The EPC also has a mandate to support the start-up of national SEPA implementation programmes in conjunction with the Eurosystem (see below), national associations and European associations.

The EPC has also established a Roll-Out Committee (ROC) with the brief to prepare, plan and support the specific roll out of the SCT and the SDD schemes. The objectives of the ROC are: to provide guidance to ensure consistent implementation; to build and operate a scheme Rulebook change process; to define processes for the scheme service providers (i.e. CSM's and PE-ACH); resolve any scheme Rulebook or implementation disputes.

The EPC has a mandate based on self-regulation

The EPC is developing a communication plan to create credibility, generate momentum and keep all interested parties informed. The plan is designed to communicate the SEPA message and programme, and to help co-ordinate and align decision makers and implementers across the SEPA zone. The agreed implementation principle is that banks and their national banking communities are leading the implementation and migration and the EPC is supporting and monitoring this. However, it must be emphasised the EPC manages on the principle of self-regulation; it has no brief to be directive. Much as with the euro implementation, it is the responsibility of banks, schemes and interbank organisations to commit to SEPA and to work with the national authorities to build national implementation plans. The EPC has a mandate based on self-regulation to encourage SEPA implementation.

6.5 Role of Banks

Banks are responsible for developing their SEPA products and services

Banks and banking groups, as EPC Members, or through their membership of European and national banking communities, have already shown their commitment and support for the SEPA vision. Many staff years of concentrated debate and drafting effort have enabled the significant progress made so far. However, much remains to be done. Banks are committing to deliver SEPA payment services based on the two new Scheme Rulebooks and on the Cards Framework. Banks are responsible for developing their SEPA value propositions (products and services). There should be timely decision making by each bank's executive, plus the allocation of resources and the appointment of SEPA project directors and teams to carry out the essential marketing, product, operational and IT changes.

Banks will also strongly encourage their national associations and payment scheme organisations to ensure the creation of an over-arching national SEPA implementation structure. Internally bank staff and relationship managers are already buying into the SEPA vision and are implementing external communication plans. Constructive engagement with customers and lobby groups, governments and other stakeholders, supported by appropriate communication programmes, will continue throughout the next four years.

6.6 Role of European and National Banking and Payment Associations

As with banks, European and national banking and payment associations have already made substantial contributions to SEPA and the EPC. They are now responsible for supporting and actively promoting the SEPA vision and scope within their constituencies. More specifically, they have to encourage their members to buy into the SEPA vision. They also have the key role of co-ordinating at a day to day level the national SEPA project, its planning and implementation.

National associations to promote public authority "early adopter roles" for the new payment instruments

Engagement with National Central Banks (NCB's), plus European and national trade associations (consumers, merchants, SMEs, corporates) and governments will be required and most associations have already set up SEPA communications and co-ordination teams to perform this role. As with the Eurosystem, European and national associations must promote the proposition that European and national public authorities (and their agencies) should become the "early adopters" of the two new SEPA payment instruments. Finally, in each country there will be a need to create an implementation structure which owns the SEPA programme and which will co-ordinate implementation.

6.7 Role of Public Authorities

Governments and public authorities are asked to provide legislative and regulatory support to SEPA implementation by helping in the removal of blockages and barriers that may restrict the effectiveness of SEPA or delay implementation. Public authorities can encourage adoption of the SEPA plan and its implementation through dialogue and communication with government, banks, corporations and consumers in each country. Also, as 'buyers' of payment services, they have a role as "early adopters" by encouraging the implementation of SEPA payment instruments within the government departments, revenue, tax benefits and within public utilities. Since approximately 50% of euro-area GDP is channelled through the public sector, it is clear that the volume of payments made by public authorities could drive adoption of the SEPA instruments by the whole economy.

6.8 Role of Users of Payment Services

Users of payment services (including corporates, merchants, SMEs, public administrations and consumers) have the most important role to play, for without their co-operation and commitment, SEPA will fail. Customers must be persuaded that the new SEPA payment instruments bring value and convenience. Clearly banks must communicate the SEPA message to their customers to encourage them to migrate to IBAN and BIC usage. Public administrations, large corporates and merchants will have to interface to new systems and for many, build additional infrastructure components. For SME's the majority of the change will be prepared by their banks. Merchants in all nations will face changes to their terminals, with new card acceptance applications and protocols. There is potential for the creation of partnerships with financial institutions to promote adoption of the SEPA payment instruments. Users should migrate step by step to, and/or adopt new SEPA payment instruments as they become available and become involved in national community implementation programmes.

Without the cooperation of payment users, SEPA will fail

6.9 Role of Payment Infrastructure Providers

Both payment (card) schemes and clearing houses (ACHs) and operators will see their roles change over the next four years and it is clear that they are essential facilitators to make SEPA a reality. For ACH's, the role will be that of migration from a one country only scheme to a euro-area common scheme. Many will need to change their strategies and structures and enable the separation of scheme from the infrastructure. Processing operators will see their roles change as they adjust to becoming a PE-ACH or SEPA-scheme-compliant CSM and servicing national and European customers. Similarly, payment (card) schemes and interbank processors face changes in their roles, responsibilities and business opportunities. These changes can only be effected by working closely with scheme members and owning banks to ensure the necessary changes are implemented smoothly and do not disrupt the implementation of SEPA.

6.10 Role of the Payments Supplier Sector

SEPA offers enormous opportunities to the supplier sector

SEPA implementation is likely to cost the banking sector and corporates and public administrations a very substantial sum in changes to marketing communication, product development, operational processes and IT systems. This enormous change program cannot be achieved without the strong support and involvement of the supplier sector. The EPC expects software vendors, processors, systems integrators and consultancies to support the development of new cost efficient products and services that will facilitate rapid and low risk conversion and migration to SEPA. This will be no easy task for the cards sector in particular, for standards and specifications will take time to be finalised and implemented. For the SEPA ETS Schemes, the UNIFI (ISO 20022) XML standards have been specified and the implementation guidelines are in preparation. However, suppliers can pro-actively assist the process by supporting their customers, by contributing to the standards-setting process and communicating the SEPA vision and concept to their product and services developers.

7 POTENTIAL IMPACTS AND OPPORTUNITIES FOR BANKS

7.1 Introduction and Summary

As the description of the end user experience shows (Section 3), SEPA will deliver benefits to consumers, merchants, public administrations, merchants and corporates. In addition, SEPA (and the PSD) will impact large and small banks, issuers, acquirers, processors and payments suppliers. At the same time, SEPA will also create many strategic challenges and opportunities for banks to offer new products and services and to build new business models. A summary of general impacts and opportunities for banks is provided within the following paragraphs, tables and charts, plus a more detailed review of cost impacts and benefits to banks. It is not just a 'compliance' project and careful planning is required.

7.2 The Benefits of SEPA for Bank Customers

The primary benefits SEPA delivers to consumers, merchants and corporates are summarised within the Figure 1.1 below. It should be emphasised again that the EPC has designed the new schemes and frameworks to deliver facilities and services beyond those currently provided within many national markets, as well as reducing costs and improving overall efficiency.

New SEPA Benefit	Consumers	Merchants	Corporates	Public Administrations
Common SEPA zone standards	●	●	●	●
More options for the banking industry in the procurement process	●	●	●	●
One account serves all Europe	●	●	●	●
Transparency and clarity of charges	●	●	●	●
Common process rejects/disputes reduced costs/complexity	●	●	●	●
Mandated execution times	●	●	●	●
New SEPA zone Direct Debit Scheme	●		●	●
Common ETS Scheme and governance	●	●	●	
Transaction Pooling / STP multi country operations, better liquidity management		●	●	
End to end automated processes		●	●	●
EU wide acceptance of payment cards	●	●		●
Increased card transactions through cash displacement	●	●	●	●
Reduced fraud	●	●		●
Lower cost terminals		●		●
Single terminal footprint		●		●
Increased choice of processing services		●	●	●
Lower cost standard software and services		●	●	●

Figure 7.1: Summary of SEPA Benefits to Bank Customers

7.3 The Benefit of SEPA for Banks – A Strategic Opportunity, not just about Compliance

Individual banks and other payment industry players across SEPA will be responsible for implementing SEPA. It is vitally important that they fully grasp the scale of the opportunity. The SEPA concept and its ramifications take time to understand and digest. All banks dealing in retail euro payments will be impacted whether inside the euro-zone or not.

It is important that banks do not see SEPA as merely a compliance project but rather as a business opportunity. Banks will need to understand the detail of SEPA and the PSD, assess the impact on their revenues, review the impact of competitor's offers and analyse their strengths and weaknesses in the future payments market. There may also be benefits for their future alliance and merger planning.

With SEPA, change will bring many strategic opportunities for banks to innovate, to develop new products, to replace ageing systems and to improve operational efficiencies. Competition amongst banks is likely to increase. The new ETS schemes define core features and best practice and it is up to the SEPA user community to build products and services ready for the market. Larger banks can offer high volume payments processing products. Smaller banks can compete with larger ones, because one home account can serve customers in multiple countries (private clients, students, pensioners etc). Large and smaller banks can also specialise and develop and deliver products that will service niche sectors

With change comes both threats and opportunities. Integrated SEPA payment strategies (as shown in Figure 7.2 below) under-pinned by the introduction of new innovative market offerings and linked to the benefits of improved efficiencies in service delivery will be essential requirements if all banks are to compete.

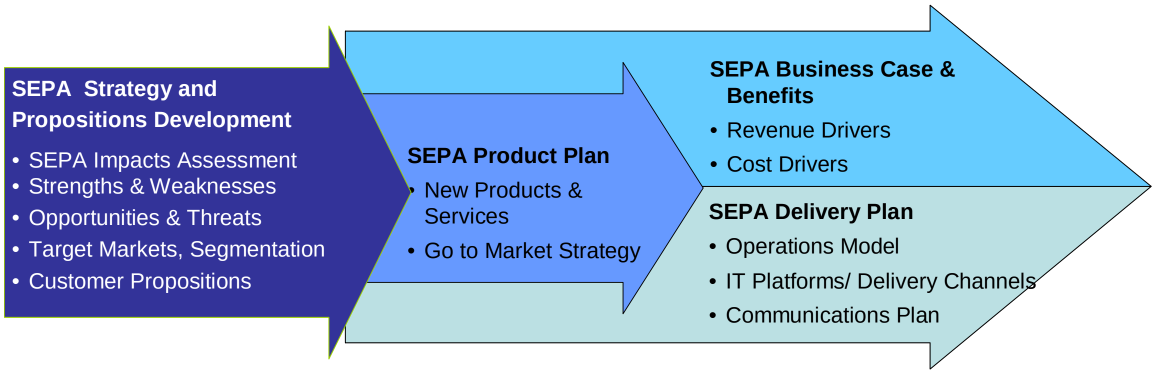


Figure 7.2: SEPA Integrated Payments Strategy

With the introduction of SEPA, geography and national markets will no longer be a barrier. Even smaller national and regional banks will have the opportunity to compete on a pan-EU basis – physical presence alone will no longer necessarily be a differentiator. Pan-EU corporates and retailers will be looking to banks to provide new cross-border products and services to take advantage of the efficiencies delivered by SEPA. For these reasons, corporate market research will be essential to establish large and small company requirements and to test out new propositions and products.

Market Opportunities for Banks	
Electronic Transfer Schemes (ETS)	**Cards**

• Integrated 'go to market' strategies
• Open market for ETS services and open membership of all ETS schemes in all countries
• One account serves all Europe
• New account products – domestic/EU wide features:
  - ability to service pan-EU corporates and merchants
  - large corporate liquidity management products – single relationship
• New propositions and products for consumers
• Increase of market share in euro retail markets
• Develop white label payment processing services to 'in-source' smaller banks
	• New propositions for cardholders
	• New propositions and value add product features for large/small merchants
	• Open market for cards issuing/acquiring and processing
	• Open membership of all card schemes in all countries
	• New acquiring processing platforms enable new markets
	• Become independent acquirers operating outside national interbank frameworks
	• Develop alliances and JV's with sector players

Figure 7.3: SEPA Market Opportunities for Banks

Banks will try to add value to their value propositions and will provide scale processing offers to Europe's largest corporates. One common account processing engine can be developed to serve the whole SEPA area, reducing the costs of country specific platforms and enabling mergers and aquisitions. Similarly, acquirers can offer large merchants much improved, multiple nation pan-EU acquiring services for all payment cards. Common in-house platforms will enable large processors to develop new pan-EU services at lower cost. Payment sector software suppliers can innovate and develop new interfaces and converters to enable SEPA migration. In addition, the costs of products and services will decline, as vendors develop common EU designs rather than national market specific, reducing bank's operational costs.

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

In order to fully benefit from the expanded reach provided by SEPA, it is important that banks develop new and attractive value propositions for the new larger market and for specific customer segments. New propositions will result in modified and new products for corporates, public administrations, merchants, and, more importantly, consumers. When building a new strategy it is suggested banks consider the following steps:

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

7.4 SEPA Benefits and the Business Case

When assessing benefits in building the business case it is important that SEPA is not perceived as merely a regulatory programme of infrastructural change with an associated cost of compliance. For the banking sector SEPA is an opportunity to be creative, to innovate, to win new markets and generate new incomes as old products are replaced. Banks that are forward thinking and adaptive can leverage the SEPA opportunity to build new profitable relationships and new forms of income, in particular for new value-added services built on the platform for electronic payments and card services.

Operating models will need to be redefined to benefit from efficiency improvements that common standards and processes deliver. The new SEPA payment instruments and frameworks have been designed to enable reductions in internal and external bank costs. The new competitive CMS market should drive down bank costs of clearing and settlement. The mix of payment instruments will also change with a decline in the use of paper based transactions. Interbank infrastructures will rationalize, leading to fewer and less complex interface requirements. Clearing and Settlement mechanisms could become more efficient with the introduction of ETS schemes.

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

Efficiences will help banks to mitigate the costs of the SEPA infrastructure changes and enable them to build a SEPA business case. A summary of the efficiency benefits that can be incorporated into a business case is shown in Figure 7.4.

<table>
<tr><th colspan="2">Efficiency Benefits</th></tr>
<tr><th>Electronic Transfer Schemes (ETS)</th><th>Cards</th></tr>
<tr><td>
• Decreased cost of back office by standardisation across Europe
• Replacement of ageing platforms with modern, efficient systems
• Increased economies of scale by pan-EU operations
• Decreased processing cost through end to end automated processes (STP)
• One common pan-EU delivery platform
• Common rules for Clearing and Settlement
• Common processes for Rejects and Disputes
• Benefits of common message standards (IP and XML)
• Standard use of IBAN and BIC
</td><td>
• Single processing platform for SEPA zone
• Reduced fraud with roll out of EMV
• Lower cost terminals and common applications
• Single terminal footprint
• Cash displacement through increased card transactions
• Increased choice of processing services
• Standard software services
• Replacement of ageing platforms with modern, efficient systems
</td></tr>
</table>

Figure 7.4: SEPA Efficiency and Cost Reduction Benefits to Banks

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

7.5 SEPA Delivery Plan

For banks to reap the benefits of SEPA, significant planning and organisation will be required. Banks need to start developing their SEPA delivery plans now if the ambitious delivery dates are to be achieved. They need to understand the impact of the new cost drivers and assess the current position in terms of their internal processes, IT platforms and delivery channels. SEPA represents an opportunity for banks to change their operating models. Implementation and usage of the new SEPA payment instruments (and PSD components where applicable) will need to be embedded in the banks' business and operational processes.

The technology investments required for SEPA will also need careful assessment and planning. Banks will need to modify existing or develop new IT platforms and delivery channels. Many will use the SEPA development to replace ageing platforms and to refresh systems. Banks will also need to assess the impact on the ETS and card schemes in which they participate and also assess the resulting impact on their Clearing and Settlement mechanisms. Decisions will need to be made on development options, whether to build in-house, purchase software to outsource. SEPA will also provide an opportunity to re-evaluate partnerships, to discuss the impact of SEPA with suppliers, agree projects and build work plans. The possibility of centralizing systems should be assessed and new alternative sourcing options (both interbank networks/processors and commercial providers) reviewed in the light of new products and the increased competition and consolidation in the supplier and processor sector.

In order to manage the delivery effectively, banks will need to formulate SEPA change programmes implemented by dedicated, co-ordinated SEPA teams. An important element of these programmes will be effective communication plans for all parties including consumers, businesses and partners. Close and highly co-operative engagement with national banking organisations, governments, lobby groups and stakeholders will be essential.

To sum up, SEPA implementation is not just another infrastructural change. It is a time to rethink, build new business models, win new customers, generate increased profits and improve efficiency.

8 Glossary of Terms

ACH	Automated Clearing House
ATM	Automated Teller Machine
B2B	Business to Business
B2C	Business to Consumer
BIC	Bank Identifier Code (SWIFT)
Cash WG	Cash Working Group
CIT	Cash-in-transit company
Credeuro/ICP	"Interbank Convention on Payments" - the convention, which establishes the pan-European interbank principles for basic cross-border straight through processing (STP) credit transfers in euro
CSM	Clearing and Settlement Mechanisms
CWG	Cards Working Group
EBA	European Banking Association
EC	European Commission
ECB	European Central Bank
ECSAs	European Credit Sector Associations
ECTWG	Electronic Credit Transfer Working Group
EDDWG	Electronic Direct Debit Working Group
EEA	European Economic Area (Norway, Iceland, Liechtenstein)
EMV	Europay MasterCard Visa programme to implement CHIP & PIN security for card transactions.
EPC	European Payments Council, the decision-making body for the banking industry in relation to European payment issues.
EPOS	An integrated POS device which incorporates EftPos, scanner and merchant applications
ESCB	The ESCB comprises the ECB and the NCB's of those countries that have adopted the euro.
ETS	Electronic Transfer Scheme
EU	European Union
Eurosystem	The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro
euro-area	12 countries using the euro as legal tender
IBAN	International Bank Account Number
ICS	International Card Schemes
IT	Information Technology
ISO	International Organisation for Standardisation
NBAs	National Banking Associations
M&A	Mergers and Acquisitions
MTU	Mobile Top Up
NCB	National Central Bank
NLF	New Legal Framework
OITS SG	Operations Infrastructure Technology & Standards Support Group

PE-ACH	Pan-European Automated Clearing House
PIWG	Payment Instrument Working Group
POS	Point of Sale
PSD	Payment Services Directive (proposal sent to European Parliament on 01/12/2005)
ROC	Roll Out Committee
SEPA payments instruments	The pan-European payment instruments for payments in euro that will be delivered by banks under the SEPA programme.
SEPA payment scheme	The rules and practices for the provision and operation of a SEPA payment instrument agreed at interbank level in a competitive environment.
SEPA	The Single Euro Payments Area.
SCF	SEPA Cards Framework
SCT	SEPA Credit Transfer
SDD	SEPA Direct Debit
SECA	Single Euro Cash Area
SLA	Service Level Agreement
SME	Small Medium Enterprises
Stakeholders	Banks (and their associations and infrastructures), their customers (and their associations), and regulators.
STEP2	Europe's first pan-European ACH managed by EBA clearing company
STP	Straight-through-processing (can be applied to the bank-to-bank chain only or on an end-to-end basis).
TARGET2	The Eurosystem's planned replacement for TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system).
UNIFI	Universal Financial Industry message scheme
(EPC) White Paper	The document which launched the European banking industry's vision and action plan for SEPA in 2002.