EUROPEAN CENTRAL BANK

EUROSYSTEM

SINGLE EURO PAYMENTS AREA

OCTOBER 2010

SEVENTH PROGRESS REPORT

BEYOND THEORY INTO PRACTICE

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In 2010 all ECB publications feature a motif taken from the €500 banknote.

SINGLE EURO PAYMENTS AREA SEVENTH PROGRESS REPORT

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EXECUTIVE SUMMARY

The Eurosystem has strongly supported the creation of the Single Euro Payments Area (SEPA). Since the publication of the 6th SEPA Progress Report in November 2008, a number of major milestones in the SEPA project have been achieved. However, there are also areas where developments have been unsatisfactory. In summary, the Eurosystem provides the following analysis and guidance.

1 SEPA CREDIT TRANSFER AND SEPA DIRECT DEBIT

The Eurosystem appreciates the achievements made by the European banking industry in developing the SEPA credit transfer (SCT) and SEPA direct debit (SDD) schemes under the auspices of the European Payments Council (EPC). The launch of the SDD in November 2009, which is the first time that cross-border direct debits were made possible, can be seen as a significant achievement.

At the same time, the slower than expected SEPA migration indicates that *adherence and reachability are not enough to ensure timely migration*. It underlines the *need to increase SEPA awareness among all user groups and to bring SEPA higher up in the list of priorities for big billers* (i.e. corporate businesses and public administrations). *Attractive service offerings based on the SCT and SDD schemes should be made available to the users of payment services*, taking into account actual consumer and business needs. The *long-term financial business model for the SDD* scheme still needs to be established.

The Eurosystem expects SCT and SDD to become the credit transfer and direct debit schemes used for euro payments in the EU. After the SEPA migration end date, they will have replaced national legacy credit transfer and direct debit schemes for euro payments.

2 CARDS

Progress in the creation of an additional European card scheme has been considerably slower than hoped for. Nevertheless, the rationale for the Eurosystem's call for an additional European card scheme as a necessary element to realise a competitive card market in SEPA is still valid, and the Eurosystem continues to monitor the three initiatives that are active in the market, providing guidance, when needed.

In addition to the commitments made by MasterCard and Visa Europe on multilateral interchange fees (MIFs), *further guidance from the European Commission on the MIF* is considered necessary, with guidance in the form of a regulation as the ultima ratio. However, other major obstacles in the SEPA for cards dossier need to be removed as well, particularly with regard to the *separation of scheme management from processing entities* and the *creation of interoperability between scheme-independent processors*. The principle of the separation of scheme from processing should ideally apply at the corporate level. To enable interoperability between scheme-independent processors, the EPC is invited to adhere to its December 2009 decision to update the PE-ACH/CSM Framework and to amend the SEPA Cards Framework accordingly.

At the same time, the Eurosystem observed progress in cards standardisation, which is a key factor for the different scenarios on the way forward for the SEPA for cards dossier. To be able to successfully meet the requirements of the stakeholders, there is a *strong need for the direct and coordinated involvement of the European payments industry, ideally represented by the EPC, in global card standardisation bodies*. In particular, *the Eurosystem is still awaiting concrete proposals for a more active involvement of the EPC in the EMVCo and the PCI SSC*.

Furthermore, *by the end of 2013 at the latest, SEPA-wide licensing should be at hand*, i.e. card issuing and/or acquiring licensees should no longer be restricted to single countries or regions but allowed to be active in the entire SEPA. With regard to security certification for cards and terminals, the Eurosystem expects a permanent governance structure for SEPA to evolve, and is expecting EPC and CAS members to agree on concrete proposals.

3 RETAIL PAYMENT INNOVATION: eSEPA

Based on the strong growth in e-commerce, the correspondent growth of online payments and the rising concerns over the substantial increase in fraud figures for card payments on the internet, *the Eurosystem sees a genuine need for secure and efficient online payment solutions to be offered throughout SEPA*. Although the EPC's long-term goals for e-payments are in line with the expectations of the Eurosystem, the slow progress made by the EPC in this domain so far is disappointing. At the moment, the most promising initiative is the aim of three prominent online banking-based e-payment solutions (eps, iDEAL, giropay) to run a "proof of concept" exercise of interoperability, using the EPC's work on e-payments as a starting point. The Eurosystem supports this proof of concept exercise and the aims of the three schemes and expects that the three schemes will be open to requests of other communities/schemes if they would like to join. *The Eurosystem strongly encourages the banking industry to engage in this area of activity by delivering SEPA-wide online e-payment solutions.*

The m-payments dossier is still in its early stages. The large number of stakeholders to be involved makes the development of widespread m-payment solutions more complex. *The Eurosystem expects the EPC's theoretical work to be finalised by mid-2012 at the latest and SEPA-wide customer offerings to emerge.*

4 SECURITY OF RETAIL PAYMENTS

Security of retail payments is a key issue for consumers' and businesses' trust and confidence in SEPA. The risk-based approach by individual banks may be sub-optimal in achieving a level of security required at the aggregate industry level, because commercial risk tolerance levels may differ from those of social risk tolerance.

In this respect, the Eurosystem's "Harmonised oversight approach and oversight standards for payment instruments" provides further clarification of the expectations with regard to security controls. In general, more clarity regarding the actors involved in defining security requirements and the requirements established by these actors could be beneficial for the public's confidence in payment systems and services across Europe. Therefore, the Eurosystem will support further efforts to create a common understanding of the relevant security requirements (e.g. two-factor authentication) among all relevant authorities and market actors, and furthermore envisages establishing a forum for monitoring market developments and fostering further harmonisation of security expectations within Europe.

The Eurosystem encourages market participants to implement state-of-the-art measures for improving information security and preventing payment fraud. For remote payments, market participants should introduce state-of-the-art authentication and migrate to it by end-2012. *In line with Europol's stance on the future of the magnetic stripe and in support of the industry's efforts to enhance the security of cards transactions by migrating from the "magnetic stripe" to "EMV chip" cards, the Eurosystem considers that, to ensure a gradual migration, from 2012 onwards, all newly issued SEPA cards should be issued, by default, as "chip-only" cards.* If the industry decides to keep the magnetic stripe for practical reasons, any data enabling magnetic stripe transactions should be removed. The industry will have to be prepared to offer the cardholder cards with legacy magnetic stripes upon request as long as there are still regions outside SEPA which have not fully migrated to EMV.

5 RETAIL PAYMENTS INFRASTRUCTURES

Interoperability between infrastructures needs to be further improved, and the remaining obstacles need to be removed. The Eurosystem *invites all infrastructures that are active in the euro area and aim to be SEPA-compliant to engage in an open dialogue on enabling interoperability.* Furthermore, the Eurosystem invites the EPC to follow up on its commitment to enter into a structured dialogue with the infrastructures. *The Eurosystem expects SEPA compliance of infrastructures to be achieved by end-2012 at the latest*.

6 SEPA MIGRATION

Despite the achievement of a number of milestones, SEPA migration as a self-regulatory process has not achieved the required results. The banking industry's self-imposed deadline of December 2010 for SEPA instruments to be in general usage – which was shared by the Eurosystem and the European Commission – will not be met. Obviously, moral suasion had limited impact only. To ensure the materialisation of SEPA benefits, *a migration end date by regulation for SCT and SDD is required and should be set by the EU legislator. Therefore, the Eurosystem welcomes the European Commission's initiative to impose an end date for migration by means of an EU regulation.*

On the understanding that the actual migration end date(s) will be the outcome of a joint-decision between the European Parliament and the EU Council under the ordinary legislative procedure following the launch of a draft EU regulation, the Eurosystem expects that a mandatory timeline for migration to SEPA instruments will significantly accelerate the pace of transition, enabling SEPA to be completed, preferably, by the end of 2012 for credit transfers and by the end of 2013 for direct debits.

The Eurosystem recommends that the phasing-out of the €50,000 threshold for equal charges should be considered when Regulation 924/2009 on cross-border payments is reviewed in 2012.

7 GOVERNANCE OF RETAIL PAYMENTS IN SEPA

The governance structure of SEPA has been improved by the creation of the SEPA Council, which enables a more formalised involvement of high-level representatives from actors on the demand side in the SEPA dialogue. It will also contribute to improving the awareness and public's perception of SEPA, with the ultimate purpose of facilitating SEPA migration. It will liaise with the national SEPA fora in order to implement the strategic decisions taken in the various Member States.

The Eurosystem calls for more involvement of end users' representatives in some of the national SEPA fora to appropriately address retail payment concerns and challenges in the form of a social dialogue. Furthermore, *SEPA communication for end users needs to be stepped up*. This requires a coordinated and targeted approach by European and national authorities, the banking industry and the members of the national SEPA Coordination Committees.

The Eurosystem invites the EPC to strengthen its governance in the area of payment innovation, allowing for development and innovation even if not supported by a majority of the members. If this is not considered feasible, the coordinated development by interested banks or banking communities should be facilitated outside the context of the EPC.

8 CONVERGENCE OF CASH SERVICES IN SEPA

The implementation of measures included in the roadmap for procedural steps towards a convergence of cash services offered by euro area NCBs is progressing. In July 2010 the EC adopted a proposal for an EU Regulation on the professional cross-border transportation of euro cash by road between euro area Member States. The electronic data exchange with professional clients for cash lodgements and withdrawals and common packaging standards for NCB's basic free-of-charge cash services are currently being developed.

INTRODUCTION

The Eurosystem, in pursuit of its mandate to promote the smooth operation of payment systems, has strongly supported the creation of the Single Euro Payments Area (SEPA) since 2002. The aim of SEPA is to enable individuals, businesses and public administrations to make cashless payments throughout the euro area from a single payment account anywhere in the euro area using a single set of payments instruments as easily, efficiently and safely as they can make them today at the national level. What initially began as a market-driven incentive by the banking industry[1] to address the requirements regarding the principle of the equality of charges imposed by Regulation (EC) No 2560/2001,[2] has substantially broadened in terms of governance and stakeholder involvement. This is a logical development, given that SEPA is not only a business project but closely linked to the political and social ambition of a more integrated, competitive and innovative Europe. While the harmonisation of the legal environment for payment services has been achieved by means of the Payment Services Directive (PSD), the harmonisation of rules and standards has been undertaken by the banking industry. Following the project's design phase, which was coordinated and promoted by the European Payments Council (EPC) – the European banking industry's self-regulatory body in the field of payment services – it has become clear that the actual migration phase requires the closer involvement of actors on the demand side, a broader governance structure and legislative support from the regulators.

In its 6th SEPA Progress Report published in November 2008, the Eurosystem had observed that motivation for the project among market participants seemed to have diminished. To overcome this apparent SEPA-weariness and to ensure the success of the project, the Eurosystem has sought to provide guidance on SEPA not only to payment service providers, but also to other relevant stakeholders from the demand side such as businesses, public administrations, merchants and consumers (represented by their respective associations/organisations). This was based on the rationale that the aims of SEPA can only be fully achieved if all stakeholders combine their efforts. All stakeholders were invited to take an active role in SEPA to ensure that the work necessary to enable its implementation was completed in a timely manner and for full migration to take place.

Since the publication of the 6th SEPA Progress Report, a number of major milestones in the SEPA project have been achieved. The launch of the SEPA direct debit (SDD) in November 2009, which was preceded by the resolution of a number of difficult issues – for example interbank charging principles, reachability and mandate migration – was one important step. Other areas where progress has been seen are standardisation in the customer-to-bank (c2b) and bank-to-customer (b2c) domains, cards standardisation, the finalisation of the European E-Invoicing Framework (EEIF), and, last but not least, the transposition and implementation of the Payment Services Directive (PSD).[3]

However, there are also areas where developments have been unsatisfactory: migration to the SCT has been slower than expected, and some issues of concern remain with regard to the card scheme, card processing and e-payments dossiers.

The forthcoming determination of SEPA migration end date(s) for SCT and SDD in the form of a regulation and the establishment of the SEPA Council as an overarching governance body for the European retail payments market – with a wide range of stakeholders representing both the supply and the demand side – are expected to help to resolve these issues. Increased attention needs also to be paid to ensuring the security of SEPA payments and

1 "Euroland: Our Single Payments Area!", White Paper of May 2002. EPC declaration of 17 March 2005, see EPC press release, "Transforming Europe's Payments Landscape", 5 April 2005.
2 Repealed by Regulation (EC) No 924/2009 on cross-border payments.
3 Directive 2007/64/Ec of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market.

to creating a harmonised minimum level of security for retail payments in SEPA, as well as to stepping up communications on SEPA for end users.

This report is divided into two parts. The first, introductory part focuses on SEPA in the general economic, political and social context and on showing what benefits SEPA will bring. The second part goes into further detail regarding the various dossiers, assessing the progress made over the past two years and providing guidance on the way forward.

SEPA IN THE GENERAL ECONOMIC, SOCIAL AND POLITICAL CONTEXT

Often, SEPA instruments, SEPA infrastructure and SEPA standards are discussed as stand-alone topics. However, it should not be forgotten that SEPA is embedded in a general economic, social and political context. Bearing this in mind may help to create a better understanding of the imperatives and potentials of the project.

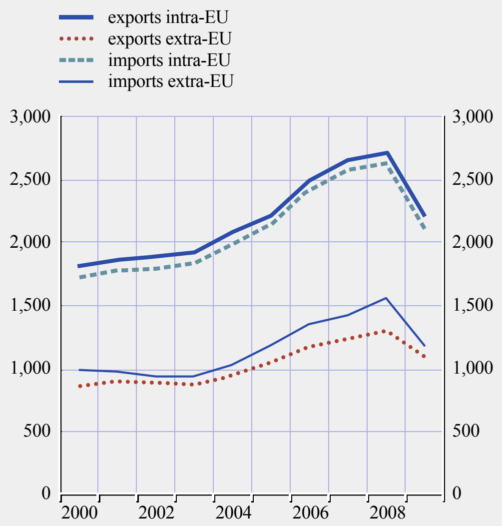
For the past 50 years, increasing economic integration has strongly supported political reconciliation and social stability in Europe. In 1957 the Treaty of Rome laid the cornerstone of the creation of the single economic market for the free movement of people, goods, capital and services. In 1992 the Maastricht Treaty provided the legal foundation for the single European currency. In 1999 the euro was introduced, and in 2002, it also became a tangible reality with the introduction of euro banknotes and coins. Today, 324 million Europeans in 16 countries (17 from 2011) can pay from a single purse, using the same banknotes and coins everywhere in the euro area.

Over these years, the trade of goods and services between EU countries has been growing on a long-term average (see Chart 1). Unfortunately, financial integration in respect of cashless payments has not progressed at the same pace. Payments for goods and services traded across borders have been more cumbersome and expensive than national payments. After all these years, there is still no single market for cashless payments that allows us to pay for the goods and services traded across Europe at the same cost and in the same simple and efficient way that is possible at the national level.

The trade of goods and services between EU countries has created a larger market for European businesses and consumers. Neither is restricted to their national markets. The creation of SEPA is intended to achieve the same goal for cashless payments. SEPA will boost competition, which is beneficial to both European businesses and consumers, who will have greater choices and who will also benefit from consumer protection reinforced by the PSD, and to payment service providers, who will be able to offer their products and services in a larger market.

Chart 1 Intra- and extra-EU trade volumes

(2000-2009; EUR millions)



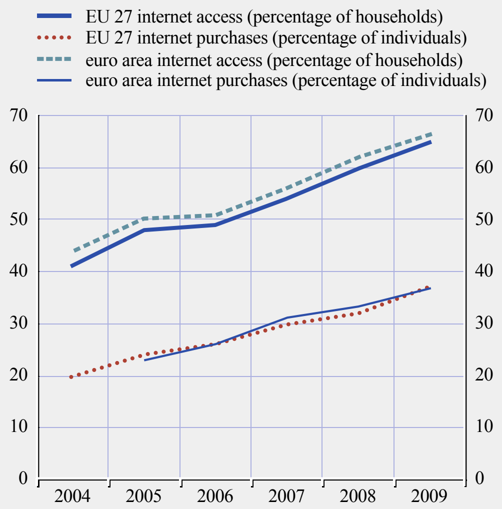
Source: Eurostat.
Note: Trade in goods of the EU and its Member States includes all goods which add or substract from the stock of material resources of the reporting Member State by entering (imports) or leaving (exports) its economic territory including goods for processing. Information on the goods is provided by legal or natural person.

Besides European integration, innovation is the second major driver for change. In this respect, SEPA offers a lot of potential that has yet to be exploited. The ubiquitous usage of mobile phones, chip technology and the internet has thoroughly changed the way we communicate and buy goods and services (see Chart 2 and 3). E-commerce is growing strongly and has further growth potential (see Chart 4). However, when it comes to paying for online and mobile shopping, customer choice in terms of the payment method is still limited. While some innovative solutions for specific consumer needs are available in certain countries, widely available solutions for euro payments across SEPA do not yet exist.

In this context, it would appear that the influence of future consumer behaviour is still being underestimated. At the current juncture, a new generation of internet and mobile users

Chart 2 Internet access by households and internet purchases by individuals in the euro area and the EU

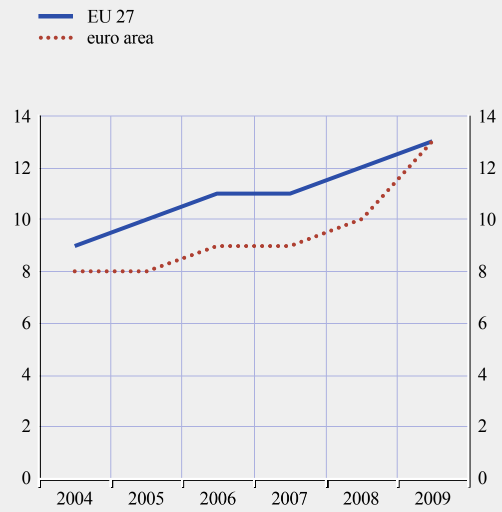
(2002-2009; as a percentage)



Source: Eurostat.
Notes: Target population: The population of household consists of all households having at least one member in the age group 16 to 74 years. The population of individuals consists of all individuals aged 16 to 74 (some countries collect separate data on other age groups). Optionally: individuals aged 15 or less, aged 75 or more.

Chart 4 Share of enterprises turnover on e-commerce in the euro area and the EU

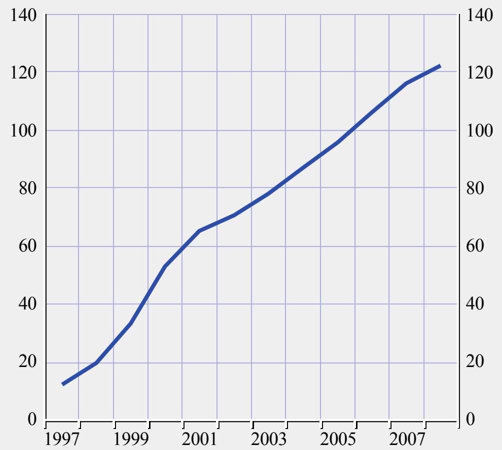
(2004-2009; receipts from electronic network sales/total turnover; percentages)



Source: Eurostat.
Notes: The survey population consists of enterprises with ten persons employed or more.
The number of receipts from electronic sales is divided by total turnover.

Chart 3 Mobile phone subscriptions in the euro area and the EU

(1997-2008; per 100 inhabitants)



Source: Eurostat.
Notes: This indicator shows the number of subscriptions to public mobile telecommunication systems using cellular technology related to the population. The total number of mobile subscriptions in the country is divided by the number of inhabitants of the country and multiplied by 100. Active pre-paid cards are treated as subscriptions. One person may have more than one subscription.

is emerging. These new users will increasingly seek new payment applications, and they will ultimately become a new type of financial services' consumer, not hesitating to use a new generation of financial service providers in order to get the services they require. The new generation will perceive payment services from a different perspective, looking for personalised, simple and secure services anytime, anywhere. If the financial industry does not address this new generation's trends and lifestyles, it might lose touch with an important customer segment.

In short, SEPA is meant to address both the need for retail payment integration (i.e. the elimination of differences between national and cross-border euro payments) and innovation (i.e. the provision of appropriate payment methods for new payment situations, e.g. e-payments for e-commerce; m-payments; e-invoicing etc.). It will be an incentive to payment service providers for more competition, greater efficiency, improved security and general innovation in the payments market, all of which have the potential to contribute to overall social welfare.[1] It is also closely linked to the political ambition to move towards a more integrated, competitive and innovative single European market.[2]

Transposing these high-level expectations to the end user level shows how consumers, merchants, businesses and public administrations will benefit from SEPA. Consumers will only need one bank account and one card to make euro payments throughout SEPA. They will also be able to benefit from innovative services that make payments easier to handle. Merchants will have a greater choice of providers of card processing services, terminal providers and card schemes and increased competition among these providers has the potential to drive down costs. Businesses and public administrations will be able to centralise their euro-denominated financial transactions and be able to benefit from opportunities for straight-through-processing of payment flows.

SEPA also deserves further attention at the microeconomic level. In discussing the economic implications of SEPA, the focus is too often placed only on investment cost and migration cost. In this discussion, the fact that retail payment business is a substantial source of revenue in banking is often neglected. Retail payment revenues account for up to 25% of total bank revenues.[3] Unlike other sources of income, they have a reliable and stable character. In addition, retail payment services often provide the foundation for long-term bank/customer relationships. They represent the interface of the financial industry with the day-to-day lives of almost every individual and every company in Europe.

The financial crisis – and the subsequent period of lower growth and higher risks – has led to a better recognition of the importance of retail banking and retail payments in generating regular and stable revenue streams for banks. There is a fundamental relationship between retail payment business and overall bank performance, which shows that the performance of banks in countries with more developed retail payment markets is better.[4] The retail payment market can also contribute towards counteracting the populist debate and negative publicity surrounding banks and bankers and thus towards preserving the public's confidence in banks and the financial system.[5]

However, despite their stable nature, retail payment revenues cannot be taken for granted. They are under pressure from different directions: increasing competition due to ongoing integration in the European payments market; substantial investment level necessary to keep up with customer demands and technological progress; and a more critical stance by competition authorities on issues such as interchange fees. Somewhat ironically, some of these pressure factors arise from the creation of SEPA. It is, therefore, not surprising that SEPA is seen by some actors in the financial industry more as a threat than as an opportunity.

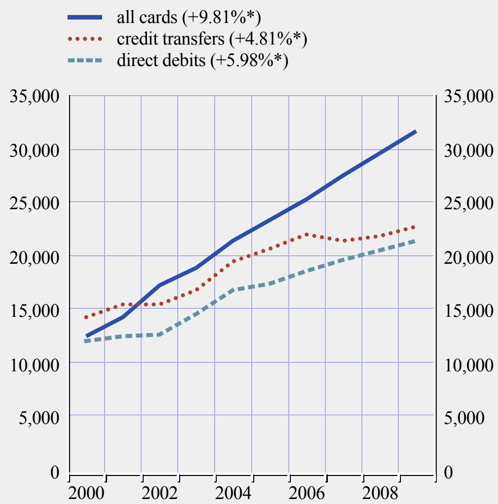
On the other hand, there are ways to improve retail payment revenues by cutting back operational costs, increasing non-cash payment volumes and offering innovative payment services. This is where the positive effects of SEPA come into play.

Operational cost can be reduced by realising economies of scale. Academic research shows that, as a rule of thumb, a doubling of payment volumes increases operating expenses by only one third.[6] Furthermore, harmonisation of

1 For a detailed analysis of the welfare implications arising from the creation of SEPA, see, "SEPA, Efficiency, and Payment Card Competition", *ECB Working Paper* No 1140, December 2009 by Wilko Bolt and Heiko Schmiedel.
2 For a detailed discussion of integration and innovation in retail payments, see, "Retail payments: integration and innovation", Joint conference by the ECB and De Nederlandsche Bank", 25-26 May 2009.
3 Ibid.
4 Ibid.
5 For a detailed analysis of the fundamental relationship between retail payment business and overall bank performance, see, "Return to Retail Banking and Payments", *ECB Working Paper* No. 1135, December 2009 by Iftekhar Hasan, Heiko Schmiedel and Liang Song.
6 For further information, see, "Retail payments: integration and innovation", Joint conference by the ECB and De Nederlandsche Bank", 25-26 May 2009.

Chart 5 Number of credit transfer, direct debit and card payment transactions in the EU

(2000-2009; in millions)



Source: ECB, Statistical DataWarehouse.
Note: The percentages are the Compound Annual Growth Rate (CAGR) mean of the growth of transactions 2000-09 in the EU. CAGR is calculated by the following formula: *CAGR = (x(t)/x(0)) (1/t) -1* where *t* is the number of years and *x(t)* is the value in the current year.

payment instruments and standards and the phasing-out of national legacy products and systems will allow further efficiency gains.

Non-cash payments could achieve sustained growth throughout Europe if all stakeholders in the payments value chain, that is, payment service providers, merchants and customers, commit fully to their development and use (see Chart 5). Payment service providers can offer incentives for the use of non-cash payment instruments by making available attractive service offerings for SEPA instruments. Enabling consumers and merchants to make an educated choice by better understanding the cost factors that arise from the selection of any particular means of payment (e.g. cash, payment cards and other e- payment instruments) is also of importance. In 2010 the ECB launched a project to enhance the general understanding of the cost efficiency of different payment instruments. To this end, the ECB, in close cooperation with some NCBs of the ESCB, is currently conducting a study on the costs of retail payments. The overall objective of the study is to estimate and analyse the social costs of different payment instruments. Based on a common methodology, the study seeks to establish a consistent and comprehensive framework allowing for a valid comparison of the costs of different payment instruments across European countries participating in this study.

Migration to SEPA has the potential to transform the retail payment market in Europe as fundamentally as the introduction of the euro. At the same time, the realisation of SEPA is not a finite process. Globalisation and modernisation will continue to impact the European retail payments market even after the finalisation of the SEPA project. These developments will bring forth new requirements and new opportunities for shaping the retail payments market in Europe. The Eurosystem is committed to monitoring these developments and to continuing to act as a catalyst for change.

SEPA BEYOND THEORY INTO PRACTICE

1 SEPA CREDIT TRANSFER AND SEPA DIRECT DEBIT

The Eurosystem appreciates the achievements made by the European banking industry in developing the SEPA credit transfer (SCT) and SEPA direct debit (SDD) schemes under the auspices of the European Payments Council (EPC). The launch of the SDD in November 2009, which is the first time that cross-border direct debits were made possible, can be seen as a significant achievement.

At the same time, the slower than expected SEPA migration indicates that adherence and reachability are not enough to ensure timely migration. It underlines the need to increase SEPA awareness among all user groups and to bring SEPA higher up in the list of priorities for big billers (i.e. corporate businesses and public administrations). Attractive service offerings based on the SCT and SDD schemes should be made available to the users of payment services, taking into account actual consumer and business needs. The long-term financial business model for the SDD still needs to be established.

The Eurosystem expects SCT and SDD to become the credit transfer and direct debit schemes used for euro payments in the EU. After the SEPA migration end date, they will have replaced national legacy credit transfer and direct debit schemes for euro payments.

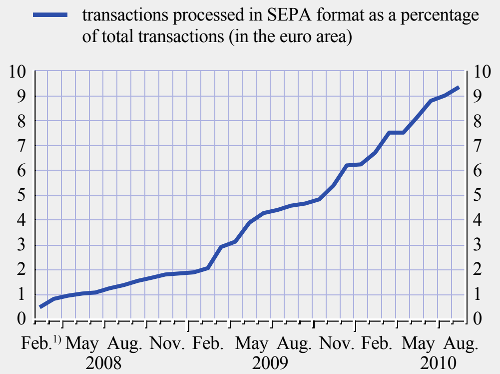
1.1 SEPA CREDIT TRANSFER

Since the launch of the SEPA credit transfer (SCT) in January 2008, banks' adherence to the SCT scheme has been high. Almost 4,500 banks, representing more than 95% of the payment volume in the EU, adhere to the SCT scheme.

The Eurosystem has been monitoring the migration from domestic credit transfers to SCT by means of the euro area SCT indicator.[1] According to the indicator, the use of the SCT (see chart 6) has grown steadily since the launch of the SCT, accounting for 9.3% of the total credit transfer volume in August 2010.

Chart 6 SEPA credit transfers as a percentage share of all credit transfer transactions in the euro area

(February 2008 to August 2010; in percentage)



Source: ECB.
1) 28 January – 29 February 2008.

However, no substantial acceleration in growth has materialised yet.

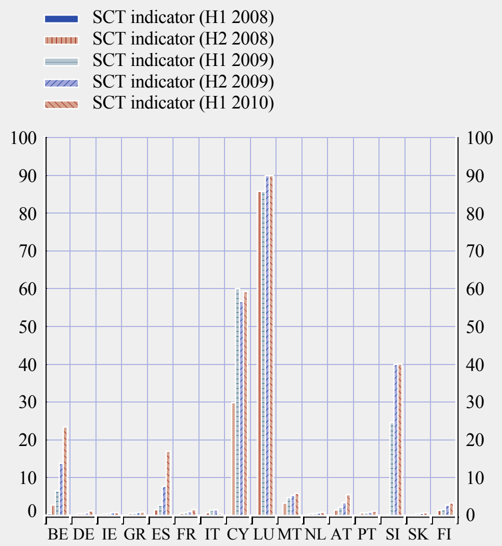
In addition to the euro area SCT indicator, the Eurosystem also assesses the take-up of SCT at the national level. The national SCT indicators provide a more comprehensive view of the situation in each country with regard to the market share of national legacy products and SCT. They are compiled biannually and are based on data received from a larger number of sources.[2] The national SCT indicators

1 Results are published on the ECB's website (http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html). The indicator provides a reasonable estimate of the usage of SCT. The calculation is based on aggregated data from the following clearing and settlement infrastructures/systems located in the euro area: CEC; RPS; Dias; Iberpay; SIT/CORE; BI-COMP; JCCTransfer; Equens; STEP.AT; SIBS; Bankart; Euro SIPS and STEP2. Transactions sent via links between infrastructures have been excluded to avoid double-counting. The results also exclude "on-us" transactions (credit transfers between accounts at the same bank), as well as transactions cleared between banks bilaterally or via correspondent banking.

2 Results are published on the ECB's website (http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html). The methodology applied to collect the data and to compile the indicators was defined in a way which would lead to reliable figures and facilitate comparisons across countries. In particular, the indicators had to cover a significant level of credit transfer transactions initiated in a country (around 80%). Given that clearing and settlement practices differ across countries, the national SCT indicators were compiled from data on transactions processed by the clearing and settlement mechanisms (CSMs), bilateral clearing of transactions between two credit institutions, correspondent banking, as well as the processing of so-called "on-us" transactions, i.e. transactions between accounts at the same bank.

Chart 7 SEPA credit transfers as a percentage share of all credit transfer transactions in the individual euro area countries

(biannual data H1 2008 to H1 2010; in percentage)



Source: ECB.
Note: Data are collected semiannually. H1, H2 refers to the first and second half of each year, respectively .

(see Chart 7) show that the take-up of SCT at the national level varies considerably. The latest available figures for the first half of 2010 show that in half of the countries of the euro area, SCT migration results are still marginal. Critical mass, i.e. a figure of more than 50%, has only been achieved in two countries, Luxembourg and Cyprus. In three more countries, Slovenia, Belgium and Spain, two-digit figures for the national SCT indicators have been achieved.

Analysis undertaken by the European Commission[3] in 2009 shows that in Luxembourg, Slovenia and Belgium, the use of SCT by public administrations was considerably higher than in the other Member States, underlining the crucial role they can play in achieving critical mass for SEPA payments. In the remaining countries, however, the SCT migration rate of public administrations in 2009 was either below the average national SCT rate or even zero. Thus, on an overall level, public administrations in 2008 and 2009 were slow in migrating to SEPA. Rather than leading by example and becoming early adopters of SEPA payment instruments, most public administrations were still focused on planning for SEPA rather than actually driving migration. Still, there are signals that commitment to SEPA in the public sector has been on the rise in 2010. This is shown by an increasing number of migration end dates, either defined at the central government level or within individual public administrations. However, most of these end dates are target dates based on an estimation of market evolution, and/or conditional upon reaching a certain critical mass of SEPA payments.

Overall, the banking industry's self-imposed objective, which was shared by the Eurosystem in its 6th SEPA Progress Report, whereby the migration to SCT transactions was supposed to reach critical mass by the end of 2010, has not been met. Despite high adherence figures, actual migration results measured by the volume of payments are disappointing. Clearly, adherence and reachability are not enough to ensure migration to SEPA. What is crucial are the promotion and service offering of banks, on the one hand, and the preparation of users on the other, in particular of the big billers from the public and private sectors (e.g. tax authorities, social security, pension funds, utilities or telecommunication companies). This is even more obvious when considering the SEPA direct debit.

1.2 SEPA DIRECT DEBIT

The SEPA direct debit (SDD) was launched in November 2009. The European Payments Council (EPC) has created two schemes for SDD: the SEPA core direct debit scheme and the SEPA business-to-business direct debit scheme, both with an e-mandate option.[4] A third SDD scheme, the SEPA fixed-amount direct debit scheme, is currently discussed at the EPC level.

3 See the "Second annual progress report on the state of SEPA migration in 2009", European Commission, 2009.

4 The e-mandate option allows for the possibility to issue mandates created through the use of electronic channels. It is based on online banking services offered by debtor banks. The debtor can use his online banking credentials. No additional means of identification are necessary. The e-mandate solution is an optional service banks may offer to their customers.

As with the SCT, the Eurosystem has been monitoring the migration from domestic direct debits to the SDD by means of the euro area SDD indicator,[5] which is based on the same methodology as the SCT indicator. Not surprisingly, the figures in the first few months after the launch of the SDD have been fairly modest, amounting to well below 1%.

These modest figures should not lower the importance of the launch of SDD, which was a major achievement, as it made available, for the first time, a payment instrument that can be used for both national and cross-border direct debits throughout the SEPA area. It is also an achievement, because the design of SDD has been a relatively long and complicated process. The multilateral interchange fee (MIF), the continued validity of existing direct debit mandates for use with SDD, the reachability of banks for SDD and the security features of SDD have all proven to be issues that are quite complex to solve.

For the time being, the intricate debate on MIF for SDD has been resolved by Regulation (EC) No 924/2009 on cross-border payments,[6] which sets out the interchange fees for cross-border and national direct debit transactions before 1 November 2012.[7] For cross-border direct debit transactions, a multilateral interchange fee of €0,088 applies, unless a lower multilateral interchange fee has been agreed upon between the payment service providers concerned. Banking communities, for which an interchange fee for national direct debit transactions already exists, are allowed to apply this fee at the national level for SDD transactions as well.

Prior to the adoption of the regulation in September 2009, the ECB and the European Commission issued a joint statement on the future SDD business model in March 2009. This clarified the European Commission's position that beyond October 2012, a general, per transaction, multilateral interchange fee for national and SEPA direct debit transactions does not seem justified, nor would it be compatible with EU competition rules. The dialogue between the EPC and the European Commission on a long-term SDD business model has not led to a wholly satisfactory result so far. In June 2009 the EPC decided that SDD scheme participants have the option to adopt bilateral cost-sharing agreements. The European Commission and the ECB would have appreciated a more active role of the EPC in this important field and still see the need for the financial industry to obtain further clarity on this sensitive issue. At the same time, as the regulation on cross-border payments only provides a temporary charging model for direct debits until 1 November 2012, the financial industry expects the European Commission – following its consultation of November 2009[8] on the issue – to provide guidance on the long-term charging principles for SDD in order to avoid concerns over competition.

The issue of ensuring the continued validity of existing direct debit mandates for use with the SDD has been resolved in all euro area countries but Germany, either by means of the transposition of the PSD into national law or by an agreement among the stakeholders involved. In Germany, a common solution is still pending. However, it is expected that the proposal for SEPA migration end date(s) by legislation will provide an incentive for the German legislator and market participants to resolve this issue.[9]

In addition to paper-based mandates, SDD offers the possibility to issue mandates created through the use of electronic channels – so-called e-mandates. The e-mandate solution is based on online banking services, and the debtor can use his/her online banking credentials. The e-mandate solution could be interesting for big billers and online merchants alike. In 2010 the EPC provided all the necessary preconditions for banks to offer this service.

5 The results are published on the ECB's website http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html).
6 Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001.
7 Ibid., Articles 6 and 7.
8 IP/09/1666: "Antitrust: Commission consults on draft guidance for Single Euro Payments Area (SEPA) Direct Debit scheme."
9 See Chapter 6.3 of this report entitled "Regulation for SEPA migration end date".

Portuguese banks were the first to start with an e-mandate pilot. Although the e-mandate solution will be an optional service offered by banks to their customers, the Eurosystem encourages banks – based on the experience gained from the e-mandate pilot – to start offering this mandate process, which is likely to increase SDD acceptance by payers and payees and to offer new opportunities for e-payment services.

By comparison with SCT, the number of banks adhering to SDD has been smaller from the start. This is due to the fact that some national banking communities – Spain, Netherlands, Portugal, France and Slovenia – decided to postpone their actual launch of the SDD to 2010. Finnish banks recommend replacing the Finnish direct debit scheme with services based on e-invoices and SEPA credit transfers. On the launch date, 2,607 banks had signed up to the new schemes; of those 2,366 banks had signed up both to the SDD core and SDD b2b scheme.

As a limited and/or unclear reach poses a migration obstacle for creditors, full reachability is even more crucial for SDD than for SCT. This is why reachability for core direct debit transactions has been made mandatory from 1 November 2010 for those banks that currently offer direct debits in euro at the national level.[10] However, as it has been shown for SCT, adherence and reachability will not be enough to ensure migration to SEPA. If banks do not actively market their SEPA service offerings and if direct debit creditors do not shift from national direct debit products to SDD, the mandatory reachability of the debtors' accounts will not have a major effect on the volume of SDD transactions processed. In particular, users need to be sure that SDD maintains at least comparable levels of debtors' protection to that which they are accustomed to in legacy direct debit schemes. For all new subscriptions, big billers from the public and private sector should offer SDD mandates to their debtors instead of legacy mandate forms.

Although the design of SDD is largely based on successful national direct debit schemes, it needs to be emphasised that it is a truly new payment scheme. As for any new payment instrument, there is a genuine need for increased customer confidence. It goes without saying that both SDD and legacy direct debits need to meet the legal requirements as laid down by the PSD. In some areas, SDD exceeds the requirements of the PSD in order to promote customer confidence. However, it has to be recognised that factual and perceived security may not always coincide, particularly in a sensitive area such as payment services.

The European Parliament and the European Council have repeatedly stressed that it should be ensured that SEPA instruments meet the real needs of users and provide levels of prices, service, security and guarantees which are, at least, as good as those of existing legacy payment instruments.[11] This view is strongly supported by the different user associations, particularly in relation to SDD.

In order to ensure successful SDD migration, it is important for the EPC (as SDD scheme manager) and subsequently for payment service providers offering SDD services to promptly address user concerns. In particular, this is imperative for consumers accustomed to the debtor mandate flow (DMF)[12] rather than the creditor mandate flow (CMF),[13] which is used in the core SDD scheme. These users need to be reassured that they can migrate to SDD services and maintain comparable levels of protection and guarantees to which they are accustomed in legacy direct debit schemes. The Eurosystem appreciates the decision of the EPC in March 2010 to include an option in the SDD rulebook which will allow the debtor banks to exchange information related to the mandate between the creditor's and the debtor's bank well before the first (or one-off direct debit) collection. Based on this information, the debtor bank will be able to check the banking

10 Ibid., Article 8.
11 For example, in the ECOFIN conclusions of 1 December 2009.
12 The debtor gives the mandate for the direct debit to his/her bank, either directly or through the creditor. The mandate is stored by the bank of the debtor.
13 The debtor gives the mandate for the direct debit to the creditor. The mandate is stored by the creditor.

coordinates and the eligibility of the account for receiving the direct debit prior to the first collection. This option is expected to be included in the 2011 release of the SDD rulebook.

The Eurosystem strongly encourages payment service providers that offer direct debit services in euro to make use of the option, which is particularly important for countries currently using the DMF model. In addition, at the debtor's request, payment service providers are encouraged to give due consideration to the provision of additional features which would address other reservations by consumer associations and thereby further increase consumer confidence in SDD services. Such additional features could, for example, include the validation of the advanced mandate information (AMI) with the debtor before the direct debit collection via electronic channels that are already used for bank-to-customer interaction (e.g. online banking, ATMs, SMSs), the possibility of limiting direct debit collections to a certain amount and/or a certain periodicity and the blocking (negative list) and/or authorisation (positive list) of specific creditors.

In a letter of March 2010, the European Commission and the ECB invited the EPC, as SDD scheme manager and on behalf of its scheme participants, to give due consideration to these additional features and to assess whether and how it would be appropriate to introduce them directly in the core SDD rulebook. The Eurosystem hereby reiterates this request, since a timely provision of these features would certainly make SDD even more attractive to consumers and bring benefits to the whole of the European economy.

1.3 REQUIREMENTS FOR CONCRETE SERVICE OFFERINGS BASED ON SCT AND SDD

The lessons learned from the slower than expected migration to SCT indicates the need to increase SEPA awareness among users and to bring SEPA higher up in the list of priorities for corporates and public administrations. As already stressed in the Eurosystem's SEPA expectations (see also Chapter 6.2), which were published in March 2009[14] and which still largely hold true today, attractive service offerings in relation to SCT and SDD should be made available to the users, taking into account the real needs of consumers and businesses. The initiation of SEPA payments must become, at least, as easy as the initiation of legacy payment instruments. The Eurosystem expects payment service providers to offer to their retail customers the same service level (e.g. standing orders) and the same access channels for SEPA instruments as for legacy payment instruments (e.g. internet banking). It should be guaranteed that all data are passed on to the receiving bank (except in cases where the payee explicitly asks the receiving bank not to forward all information, or national laws prohibit sensitive data from being passed on, such as address details). Provided there are no legal obstacles at the national level, payment service providers should make the BIC and the IBAN easily identifiable to their customers, for example, by positioning them in an obvious place on the bank account statement, in the internet banking interface and – in those countries where payment cards feature bank and account identifiers – on payment cards. Likewise, creditors should, as already stated in Regulation (EC) No 924/2009 on cross-border payments,[15] provide their BICs and IBANs not only on cross-border, but also on all domestic invoices and pre-printed payment forms.

Building on the core SEPA instruments, additional optional services (AOSs), that is, the extension of the rules and standards defined in the scheme rulebooks by a community of banks, could be beneficial in addressing customer requirements. The financial industry should carefully monitor and, to the extent possible, coordinate the development of AOSs aimed at improving the quality of SEPA instruments, so as to prevent new fragmentation of services both at the geographical

14 See http://www.ecb.europa.eu/press/pr/date/2009/html/pr090327.en.html.
15 Regulation (EC) 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001.

and the community levels. The Eurosystem shares the view of the EPC that AOSs must neither compromise the interoperability of the schemes nor create barriers to competition. AOSs form part of the market space and should be established and evolve based on market needs. Subsequently, the EPC may incorporate commonly used AOS features into the scheme through the change management processes set out in the EPC's "Scheme management internal rules" (SMIR). The Eurosystem, however, believes that it should be in the interest of the EPC, as the scheme owner, to play a more active role in the AOS process and not only to take notice of published AOSs and to react to complaints brought to the attention of its Scheme Management Committee (SMC), but also to check the compliance of the suggested AOSs with the essential characteristics of the schemes in order to avoid inconsistencies. It should also attempt to "merge" similar AOSs that are developed or established by different communities into one AOS, supported by several communities. In order to be able to do so, there is a need to further clarify the concept and management of AOSs, and in particular the role of the EPC in this process. In order to achieve greater transparency of AOSs that are either in the planning stage or in place, the EPC should not only provide links to the description of the AOSs on different communities' websites (which are very diverse as regards the level of detail and structure), but also create a structured database, which should be easily accessible via the EPC's website and which should allow for search functionalities. By contrast with individual payment service providers' offerings, community service offerings/practices in the customer-to-bank (c2b) domain need to be made public for reasons of transparency via the same channels.

In general, the financial industry should ensure that the expected improvement in quality via AOSs does not generate a new fragmentation of payment instruments at the geographical or the community level.

Another prerequisite to make SEPA attractive, in particular to corporate customers and public administrations, is to provide a service that includes common message standards not only in the interbank space, but also in the c2b and b2c domains. The EPC released implementation guidelines for the SEPA schemes to provide guidance on how to use ISO 20022 XML standards for payment initiation, transmission and reporting. In order to assist banks in the process of validating that their implementation of the ISO 20022 XML standards is compliant with the EPC's implementation guidelines, SWIFT (upon request from the EPC) provided Technical Validation Subsets (TVSs). The EPC recognises that these TVSs are only a transcription, in technical terms (schemas), of the implementation guidelines and that some of the usage rules in the implementation guidelines could not be reproduced in the TVS schemas. However, this leaves room for interpretation and results in diverse outcomes. This is reflected in the emergence of conversion services for XML standards implemented in different countries.

This fragmentation could be remedied by complementing the implementation guidelines with mandatory validation sub-set schemas and comprehensive sample data files. Therefore, the Eurosystem invites the EPC to contribute to more clarity by defining binding validation sub-set schemas and sample data files. Furthermore, the acceptance of ISO 20022 XML messages specified within the SEPA sub-set and in line with the new binding validation sub-set schemas should be mandatory.[16]

Besides standardised payment initiation and transmission, standardised b2c reporting is necessary to enable full straight-through-processing. The EPC created a recommendation as to how to display SCT and SDD payment data in electronic customer reporting in accordance with the ISO reporting standards. This recommendation maps the fields of the payment initiation message to the fields of the reporting messages. The Eurosystem analysed

16 For example, without any XML syntactical alternations, including root element re-naming, container placement or namespace alternations.

the EPC's solution and came to the conclusion that the mapping of dedicated data fields for SCT and SDD is a viable solution in the short term. Although this approach does not create interoperability between payment service providers' reports and customers' interfaces, the commitment to ISO 20022 XML allows easier adaptations of payment service providers' reports and customers' interfaces than the current legacy environment. In the short term, it may also facilitate corporate customers' migration to SEPA However, for a long-term solution, the preferred way forward is an implementation guideline which describes the message content in a detailed manner.

Finally, the Eurosystem expects both payment service providers and public administrations to lead by example, by including a reference to the SEPA criteria in the text of their invitations to tender. Payment service providers and public administrations should actively use SEPA instruments to pay their suppliers and execute salary payments even before being mandated by a regulated SEPA migration end date or (in the event that they do not effect payments themselves) choose a payment service provider which provides SEPA payment services. If the respective accounts are within the same institution, the IBAN should be used instead of legacy account identifiers.

In summary, the requirements for concrete service offerings based on SCT and SDD are the following:

- The financial industry should carefully monitor and, to the extent possible, coordinate the development of additional optional services (AOSs) aimed at improving the quality of SEPA instruments in order to prevent new fragmentation of services both at the geographical and the community levels;

- In order to increase transparency, the EPC should create a structured, searchable database containing information about AOSs and community service offerings/practices; which should be easily accessible via the EPC's website;

- The EPC should prevent any fragmentation in messaging standards by defining binding validation sub-set schemas and sample data files;

- Payment service providers' acceptance of ISO 20022 XML messages specified within the SEPA sub-set and in line with the new binding validation sub-set schemas should be mandatory for SEPA payments;

- With the preparations for the e-mandate option in SDD being finalised by the EPC, banks are encouraged to offer this mandate process, which is likely to increase the acceptance of SDD by payers and payees and to offer new opportunities for e-payment services;

- An implementation guideline for standardised b2c reporting, which describes the message content in a detailed manner and provides for a harmonised structure of customer reporting, is the Eurosystem's preferred long-term solution for standardised b2c reporting;

- Both payment service providers and public administrations should lead by example, by including a reference to the SEPA criteria in the text of their invitations to tender.

2 CARDS

Progress in the creation of an additional European card scheme has been considerably slower than hoped for. Nevertheless, the rationale for the Eurosystem's call for an additional European card scheme as a necessary element to realise a competitive card market in SEPA is still valid, and the Eurosystem continues to monitor the three initiatives that are active in the market, providing guidance, when needed.

In addition to the commitments made by MasterCard and Visa Europe on multilateral interchange fees (MIFs), further guidance from the European Commission on the MIF is considered necessary, with guidance in the form of a regulation as the ultima ratio. However, other major obstacles in the SEPA for cards dossier need to be removed as well, particularly with regard to the separation of scheme management from processing entities and the creation of interoperability between scheme-independent processors. The principle of the separation of scheme management from processing should ideally apply at the corporate level. To enable interoperability between scheme-independent processors, the EPC is invited to adhere to its December 2009 decision to update the PE-ACH/CSM framework and to amend the SEPA Cards Framework accordingly.

At the same time, the Eurosystem has observed progress in cards standardisation, which is a key factor for the different scenarios in the way forward for the SEPA for cards dossier. In order to be able to successfully meet the requirements of the stakeholders, there is a strong need for the direct and coordinated involvement of the European payments industry, ideally represented by the EPC, in the work of global card standardisation bodies. In particular, the Eurosystem is still awaiting concrete proposals for a more active involvement of the EPC in EMVCo and PCI SSC.

Furthermore, by the end of 2013 at the latest, SEPA-wide licensing should be at hand, that is, card issuing and/or acquiring licensees should no longer be restricted to single countries or regions but allowed to be active in the entire SEPA. With regard to security certification for cards and terminals, the Eurosystem expects a permanent governance structure for SEPA to evolve, and is expecting EPC and CAS members to agree on concrete proposals.

2.1 ADDITIONAL EUROPEAN CARD SCHEME(S)

For a number of years, the Eurosystem, along with other European authorities, has been promoting the idea that at least one additional card scheme – with its roots and legal basis in Europe – should emerge from the SEPA process. Given that the European cards market is big enough to combine competition with consolidation and economies of scale, the Eurosystem expects that an additional card scheme could function well in addition to – and in competition with – the two schemes that are already well-established and appreciated at the European level, namely VISA Europe and MasterCard. Therefore, the Eurosystem considers an additional European card scheme a necessary element for the realisation of a competitive card market in SEPA.

Several national card schemes have opted for co-branding with VISA Europe and Mastercard in order to ensure SEPA compliance. For an interim period, co-branding is necessary until more choices emerge with additional card scheme(s). Otherwise, there is the risk that the vast majority of banks would abandon their national schemes and choose one of the two schemes already active at the pan-European level. This would mean less choice and less competition at the scheme level – to the disadvantage of European consumers and merchants – and less governance for European banks.

A new European card scheme could bring both economic and political benefits. Economically, it could maintain the efficiency and relatively low fee levels that are currently provided by a number of national schemes. It could enhance competition between card schemes, between processors and between banks, thus providing choice for cardholders, merchants and banks. On a political level, it could allow for diversity in card scheme governance and in scheme ownership models. Correspondingly, there are risks if – in conjunction with the phasing-out of national schemes – the attempt to establish a European card scheme were to fail: loss of efficiency and of relatively low fee levels, less choice for cardholders, merchants and banks, less diversity in card scheme governance and scheme ownership models.

At the moment, three initiatives are working on creating an additional European card scheme: the Euro Alliance of Payment Schemes (EAPS), Monnet and PayFair. Each follows a different approach. EAPS aims to link a number of existing ATM and POS schemes. Monnet, an initiative by European banks, investigates possibilities for setting up a new card scheme. PayFair, a bank-independent initiative, intends to establish a new scheme as well. The Eurosystem is in close contact with all three initiatives, monitoring them and providing guidance, when needed. All of the initiatives are still at a very early stage. The critical points for success will be the leadership of the driving entities, the support of banks and the acceptance by users, in particular retailers and consumers. Some banks may hesitate to join one of the new initiatives either because the investments required are perceived as too high, either because they have a wait-and-see attitude, or because they feel better off with one of the international schemes.

For quite some time now, a good deal of attention has been given to the discussion on multilateral interchange fees (MIFs). Despite the commitments made by MasterCard[17] on multilateral interchange fees (MIFs) for cross-border EEA transactions (both debit and credit cards), and Visa Europe[18] on debit card MIFs for cross-border EEA transactions and national transactions in some Member States, the outcome of the debate is still not considered to be entirely clear to some stakeholders. Banks regard the MIF as an important element of the business case for the card schemes. Hence, uncertainty regarding the MIF may constitute an obstacle to investing in a new scheme. The Eurosystem shares the view that there is room for increased guidance in this field and would, therefore, appreciate it if the European Commission could contribute to provide further clarity in this domain. As the ultima ratio, guidance in the form of a regulation, even in form of an interchange fee regulation, as was implemented in Australia, for example, could be considered.

However, the focus on possible revenue streams from interchange fees might have led to a situation in which too little attention was paid to the operational costs, which could be brought down by increased harmonisation and standardisation in the cards domain. Moreover, the stimulus of the SEPA for Cards and the additional European scheme could positively affect the number of card payments and potentially result in a subsequent reduction of cash handling costs for banks and merchants.

Furthermore, it is interesting to note that, whereas the emergence of at least one European card scheme is still not guaranteed, countries such as Russia and India plan to follow the example of China, which introduced its own card scheme, China Union Pay, in 2002. While the political, economic and competitive environment, compared to the EU, is, of course, very different, the main reasoning behind these initiatives holds also true for the European ambition, that is the aim to have more efficiency and greater choice for users by fostering competition and also to actively address the specific requirements of its own payments market.

17 See "Antitrust: Commissioner Kroes takes note of MasterCard's decision to cut cross-border multilateral interchange fees (MIFs) and to repeal recent scheme fee increases", *Press release* dated 1 April 2009, IP/09/515.

18 See "Settlement on Visa debit interchange fees aids SEPA", *Press release* dated 26 April 2010.

2.2 SEPARATION OF CARD SCHEMES FROM PROCESSING ENTITIES

The principle of the separation of scheme management functions from processing, which is one of the key requirements of the SEPA Cards Framework (SCF), is an important element in the creation of a competitive payment cards market in SEPA. Card scheme participants should be free to choose their processors and clearing and settlement service providers. However, following the launch of SEPA for Cards in January 2008, doubts were raised as to whether all card schemes have effectively separated processing activities from their scheme management functions. Some national banking communities and/or card schemes have put in place a form of separation according to their own interpretation. This has also been the case for international card schemes. The way the separation has been implemented in practice is often the object of criticism among competing schemes and processors. Other national banking communities have sold their processing entities to larger companies.

In order to remedy the situation, the Eurosystem, in its role as catalyst, provides further guidance on the principle of the separation of card schemes from processing entities. This guidance is provided by delineating the ideal scenario for the separation of card schemes from processing entities. Ideally, the principle of the separation of schemes from processing should apply at the corporate level, including, in particular, operational separation, information separation, financial/accounting separation, commercial separation and legal separation (these principles are further detailed in the following box). However, the requirement to implement legal separation can only come from the respective regulator.

In this ideal scenario, in addition to the separation of scheme management functions from issuing[19] and acquiring[20] processing, card scheme management functions should also be separated from central transaction[21] processing.

If ownership of the scheme and processing entities is shared, for example in a holding structure, the principle of separation should apply to the governance arrangements for the group of entities.

The Eurosystem recognises the fact that the different elements delineated in the ideal scenario for the separation of schemes from processing entities may be costly and difficult to implement for existing organisations.

19 For example, authorisation processing between switch and issuer, as well as processes such as card manufacturing and personalisation, and communications with cardholders, for example, in the form of statements.
20 For example, authorisation processing between merchant and switch, as well as processes such as terminal provision, terminal management and/or terminal hosting.
21 Switching, clearing and settlement, as well as value-added services related to these functions.

Box

OPERATIONAL SEPARATION

Scheme and processing entities should operate separately, both at the technical and at the personnel levels. Technical separation means that scheme and processing entities should not share common technical infrastructures. Personnel separation means that different staff and different managers should work for the scheme and the processing entities. Staff and managerial separation should, in particular, ensure that:

- one entity does not have a say over the objectives and rules of the other;
- there is no possibility of control or influence of one entity over the other.

The operational separation should not exclude individual card schemes from setting certain minimum requirements, particularly with regard to operational reliability and security management, or to processors that process transactions in the respective schemes.

Operational separation also means that card schemes should not give preferential treatment to certain processing entities and vice versa. The services of the card schemes should be offered in an indiscriminate manner to all entitled processing entities without favouring a specific processing entity and vice versa.

INFORMATION SEPARATION

There should be no privileged information flows between the scheme and processing entities. This concerns, for example, imminent scheme rule changes (including applicable interchange fee rules), network-testing information or network certification systems which would place a specific processor in a privileged position.

It should be clear that a processor should not be required to provide information to a scheme other than that strictly necessary for the scheme's security management, in which data on specific individual transactions may also be needed, or for scheme transaction volume accounting reasons, in which only aggregated data would be required. Information pertaining to transactions executed with other schemes (for example, in the case of co-branded cards) should never be required by a scheme.

FINANCIAL/ACCOUNTING SEPARATION

Card schemes and processing entities should have separate profit and loss accounts and balance sheets. No financial flows should take place between them other than for paying non-discriminatory fees that may exist between schemes and processors. Finances should be run separately and at arm's length.

This financial/accounting separation should ensure the financial independence of card schemes and (central) processing entities and should exclude any possibility of cross-subsidisation. Cross-subsidisation between the scheme layer and the processing layer should be excluded, as it could enable, for example, a specific processing entity to offer services at lower prices than those offered in the absence of cross-subsidisation. It could also enable a specific scheme to offer rebates based on revenues received from its processing entity that are (partly) generated from processing in market segments which are shielded by the scheme from processing competition.

COMMERCIAL SEPARATION

The services of card schemes and processing entities should neither be offered as a combined service (e.g. no product bundling), nor be made dependent on each other (e.g. where certain scheme rules for scheme participants are only applied in full if a particular (central) processor is used). There should be no incentives offered to combine the use of both.

LEGAL SEPARATION

Card schemes and processing entities should operate as separate legal entities. This is essential in order to ensure that:

- any contractual obligation of the card scheme does not extend to the processing entity and vice versa;
- one entity may not be held liable for the acts of the other;
- any third party is able to enter into a contractual relationship with the card scheme and the processing entity separately, without being forced to be associated with both.

As already discussed in the 6th SEPA Progress Report, the requirements for the separation of the scheme from processing are primarily directed at four-party card schemes, but should also apply to three-party card schemes, to the maximum extent possible. However, card schemes which undertake both issuing and acquiring processing within their own entity and three-party card schemes with licensees (given that the licensee's contractual relationship is strictly with the card scheme) should be exempted from the separation of scheme from processing. As stated in the PSD, card schemes which undertake both issuing and acquiring processing within their own entity, as well as such schemes with licensees, are exempted from the open access criteria. However, the Eurosystem would welcome more transparency from three-party card schemes on their business models and licensing criteria. Furthermore, a licensee should be allowed to work with the issuing or acquiring processor of his/her choice, the scheme should only be able to restrict authorisation, clearing and settlement to the scheme itself. As regards SEPA-wide licensing, by the end of 2013 at the latest, licensees should no longer be restricted to single countries or regions but allowed to be active in the entire SEPA.

2.3 SEPA COMPLIANCE OF CARD SCHEMES

In March 2009 the Eurosystem published its criteria for SEPA compliance of card schemes. Card schemes that wish to be considered as SEPA-compliant need to fulfil the criteria contained in the EPC's SCF as well as the criteria included in the publication entitled "The Eurosystem's view of a SEPA for Cards" dated November 2006.

In order to achieve the desired transparency, the Eurosystem expects those card schemes aiming to meet the SEPA compliance criteria to conduct a self-assessment and to make it publicly available on their respective websites.

To date, the following card schemes have published self-assessments on their websites and have made them available to the relevant central bank: Activa (SI); American Express, Bancomat/PagoBancomat (IT); Cartes Bancaires (FR); Euro 6000 (ES); Girocard (DE); Karanta (SI); LaserCard (IE); MasterCard, Multibanco (PT); PIN (NL); Servired (ES); Sistema 4B (ES) and Visa.[22]

Other card schemes that intend to become SEPA-compliant are invited to conduct and publish their self-assessments. Moreover, self-assessments that have already been published should be updated whenever necessary.

Based on these self-assessments and on other feedback received, and taking into account the changes to the EPC's SCF and other relevant developments in the card schemes market, the Eurosystem will review the SEPA compliance criteria and the Terms of Reference (ToR), as deemed necessary.

In this context, the Eurosystem welcomes the fact that the EPC is resolved to assess and monitor SCF compliance.

2.4 CREATION OF A FRAMEWORK FOR THE PROCESSING OF CARDS TRANSACTIONS

In the 6th SEPA Progress Report, the Eurosystem argued that the efficiency in the processing of SCT/SDD on the one hand and card payments on the other could be enhanced

22 See also http://www.ecb.europa.eu/paym/sepa/about/compliance/html/index.en.html.

by the use of the same message standards (ISO 20022 XML) and the same infrastructures. To bridge the gap that exists between the EPC's strategic vision for banks, card schemes and processors expressed in the SCF and the reality of multiple card schemes, multiple banks and multiple processors, the Eurosystem called for the development of a framework for the processing of card transactions. In a second step, the relevant infrastructures were invited to develop a technical interoperability framework for SEPA-compliant card payments processing.

The EPC plenary agreed in December 2009 to update the PE-ACH/CSM framework to include card transactions and to create a small task force. However, no progress has been witnessed so far. As a consequence, the follow-up work required from the infrastructures has also not yet started.

In order to give more impetus to the work, the Eurosystem invites the EPC to adhere to its December 2009 decision to update the PE-ACH/CSM framework and to amend the SEPA Cards Framework accordingly. In addition, the EPC should initiate a dialogue with all SCF-compliant card schemes, processors, acquirers and issuers in order to obtain an understanding on the implementation of harmonised business rules and standards in their respective rules and services. At the same time, it has been suggested that standardisation initiatives work on authorisation and clearing message standards. Infrastructures should either follow up with or initiate a technical interoperability framework. Subsequently, the Eurosystem will consider SEPA compliance criteria for card infrastructures.

2.5 CARDS STANDARDISATION

The Eurosystem welcomes the fact that the distribution of responsibilities in cards standardisation has become clearer with the establishment of the EPC's Cards Stakeholders Group (CSG). The CSG, which began work in October 2009, consists of representatives from five sectors: banks/payment institutions; card schemes; processors; manufacturers of cards and terminals; and retailers. It is co-chaired by the EPC and a representative of the retailers. Whereas the EPC remains in charge of the strategic vision and business rules for cards, the CSG focuses on functional, security and procedural requirements. The CSG has taken over the maintenance and development of the SEPA Cards Standardisation Volume – Book of Requirements, which aims to harmonise functional and security requirements for cards services.

The Eurosystem expects the EPC to provide clarity on all standards currently used and/or under development for end-to-end card transactions (POS and ATM) and to provide a recommendation as to which standards will be used for SEPA. The actual development of implementation standards and specifications are the responsibility of standardisation initiatives in the different domains (card-to-terminal, terminal-to-acquirer, acquirer-to-issuer, and certification and type approval). Various standardisation initiatives are working on implementation standards for the identified domains, such as CIR TWG,[23] EPAS,[24] Berlin Group[25] and ISO. However, although the development of implementation specifications has been progressing, further efforts towards their broad implementation are necessary.

23 The CIR (Common Implementation Recommendations) Technical Working Group is an open standardisation initiative of EMV implementers in Europe and acts as the technical reference group for the European EMV Users Group and the European members of the EMVCo Board of Advisors.

24 EPAS (Electronic Protocols Application Software) is a non-commercial initiative launched in Europe which aims to develop a series of data protocols to be applied in a point of interaction (POI) environment. The project intends to address terminal management protocol, retailer application protocol and acquirer protocol.

25 The Berlin Group is an initiative of currently 23 major players in the cards industry that have defined a common set of standards for the implementation of card transaction processing between acquirers and the issuers in Europe.

As regards the SEPA security certification framework, the implementation specifications for the security certification have been developed by CAS.[26] The Eurosystem welcomes the work and the ongoing pilot. The governance aspects of the SEPA security certification framework and a certification management body have been approved by the EPC, but concrete details are still under discussion. The Eurosystem expects a permanent governance structure to evolve and is awaiting concrete proposals agreed upon by EPC and CAS members.

The different components of the work on cards standardisation have made it clear that to meet the requirements of the European stakeholders, there is a strong need for the direct and coordinated involvement of the European payments industry, ideally represented by the EPC, in the work of global card standardisation bodies. Apart from the more legalistic aspects of this issue, it should not be overlooked that a lack of influence on governance also leads to a lack of influence on the content of the standards/specifications. This is most negatively experienced with regard to the PCI SSC specifications for POS terminals (formerly known as the PCI PED, now called the PCI PTS) and for data storage (PCI DSS). These standards do not take into account the specificities of transactions processed in EMV-migrated countries, thereby necessitating an additional investment in those (European) countries. With regard to EMVCo., it is mainly the lack of progress on contactless and mobile payment applications that shows that European requirements are not being met, as this work is being kept at the international card scheme level instead of being promoted within EMVCo.

Consequently, the Eurosystem encourages the EPC to provide some concrete proposals for the more active involvement of the EPC in EMVCo. and the PCI SSC. Alternatively, a well coordinated representation of European card schemes should become more directly involved in both these organisations.

3 RETAIL PAYMENT INNOVATION: ESEPA

Based on the strong growth in e-commerce, the corresponding growth in online payments, and the rising concerns over the substantial increase of fraud figures for card payments on the internet, the Eurosystem sees a genuine need for secure and efficient online payment solutions to be offered throughout SEPA. Although the EPC's long-term goals for e-payments are in line with the expectations of the Eurosystem, the slow progress made by the EPC in this domain is thus far disappointing. At the moment, the most promising initiative is the aim of the three prominent online banking-based e-payment solutions (eps, iDEAL, giropay) to run a "proof of concept" exercise of interoperability, using the EPC's work on e-payments as the starting point. The Eurosystem supports this proof of concept exercise and the ambitions of the three schemes and expects that the three schemes will be open to requests of other communities/schemes if they would like to join. Furthermore, the Eurosystem strongly encourages the banking industry to engage in this area of activity by providing SEPA-wide online e-payment solutions.

The m-payments dossier is still in its early stages. The large number of stakeholders to be involved makes the development of widespread m-payment solutions more complex. The Eurosystem expects the EPC's theoretical work to be finalised by mid-2012, at the latest, and for the initiatives which are/will become active in this area, to be aligned with the EPC's theoretical work in order to avoid fragmentation and to enable the development towards SEPA-wide customer offerings.

26 CAS (Common Approval Scheme) is an initiative for the harmonisation of security requirements and certification processes for cards and POS terminals. It was founded in 2004 by European card schemes. Currently, several European approval bodies (i.e. PAN Nordic Card Association, the UK Cards Association) also participate as well as several international card schemes (American Express, MasterCard and VISA).

3.1 DELINEATION OF ONLINE E-PAYMENTS AND M-PAYMENTS

E-payments can be widely defined as payments that are initiated, processed and received electronically. Since the 1990s, the success of the internet has created the need for adequate payment instruments that enable the purchase of digital or physical goods and services over the internet. These types of online-initiated payments are generally referred to as "e-payments". Because of the lack of an adequate service offering from banks, new service providers have entered the arena. The development of specific payment mechanisms for the online world has been a logical consequence of the success of e-commerce.

Online e-payments are payments for which the payment data and the payment instruction are transmitted and confirmed online (i.e. via the internet) between the customer and his/her payment service provider in the course of the online purchase of digital or physical goods and services from a web merchant.

The definition excludes payments that are merely initiated by the payer via his/her online banking application (i.e. without being integrated into the process of online shopping). Therefore, a credit transfer which was submitted by the payer in his/her online banking application would, for instance, not be considered as an online e-payment in accordance with this definition. The same holds true for traditional offline payments, for example cash on delivery. For the same reason, the (electronic) payment of an online invoice (Electronic Bill Presentment & Payment, EBPP) is not considered an e-payment, because no simultaneous online shopping process takes place.

No differentiation is made between the device (desktop PC, laptop, netbook, mobile handsets) and/or the service technology used to access the internet. *As long as the payment data is transmitted and confirmed via the internet, it is considered as an online e-payment and not an m-payment.*

The success of mobile phones is unprecedented in the history of innovations and even outperforms the success of the internet. In an increasing number of countries, the number of mobile phones already exceeds the population. Moreover, mobile phones are not only a phenomenon of industrialised countries but are also widely spread in developing countries. The often quoted example of people being more likely to forget their wallet than their mobile phone, together with the technological possibilities of the mobile telephone, have facilitated the ambitions to develop payment mechanisms based on the mobile phone – for the online as well as for the physical world.

M-payments are payments for which the payment data and the payment instruction are transmitted and/or confirmed via mobile communication and data transmission technology (e.g. voice telephony, text messaging or near field communication – NFC) through a mobile device between the customer and his/her payment service provider in the course of an online or offline purchase of services, digital or physical goods. M-payments are initiated, confirmed and/or received via a mobile device using a keypad or a touch screen (for mobile remote payments) or activating contactless radio technologies, such as NFC or Bluetooth (for mobile contactless payments).

M-payments can be further classified into contactless and remote payments. For contactless payments, the payer and the payee (or the payees' terminals, for example, vending machines, parking meters, and public transport ticket dispensers) are in the same location (for which reason they are often also referred to as proximity payments). For remote payments, this is generally not the case.

The definition excludes contactless card payments (which also make use of NFC technology), which are not initiated through a mobile device but through a payment card.

Payments which are comprised by the definition of online e-payments, that is those payments which use the internet as a transmission channel, are not qualified as m-payments, even if they are executed with a mobile handset. This clarification seems to be necessary, particularly because mobile devices (e.g. smart phones) offer instant and mobile internet access almost any time and anywhere. In the case of hybrid solutions, for which the initiation takes place online (e.g. by entering the mobile phone number) and authorisation is given via the mobile phone (e.g. by entering a PIN into the mobile handset), this confirmation and the customer's perception should prevail and the payment should be considered as a mobile payment.

Due to developments in the field of innovative payments, the ECB, in cooperation with the NCBs of the EU, decided to start a new stock-taking exercise aimed at observing and identifying developments and trends in the market of payment innovations by means of an eSEPA online survey. Previous surveys were conducted in 2004, 2005 and 2006.[27]

3.2 DEVELOPMENT OF ONLINE E-PAYMENTS

Europe is still a patchwork of national online markets, and Europeans are prevented from enjoying the benefits of a digital single market. This should be achieved by eliminating regulatory barriers and facilitating electronic payments and invoicing, dispute resolution and customer confidence. Therefore, the European Commission's Digital Agenda for Europe[28] requires the definition of a date for moving to a single market for online payments. Currently, only 8% of online shoppers in the EU buy from another country, and, according to a study undertaken by the European Commission, 60% of attempted cross-border internet shopping orders fail due to technical or legal reasons such as the refusal of non-domestic credit cards.[29] Online merchants urgently need readily available payment methods whereby the buyer is properly authenticated. Online banking-based payments are a strong option for this. The European E-Commerce and Mail Order Trade Association (EMOTA) welcomes any initiative which can make this category of payments the norm for cross-border trade in Europe.[30]

Card payments, which are still the instrument most widely used for online payments, are – without the application of additional security procedures such as dynamic authentication – clearly not the most suitable payment method for remote payments. This view is supported by the rising concern over fraud rates for "card-not-present" transactions (see also Chapter 4 on the security of retail payments). Furthermore, online shops often limit card acceptance to one or two (mainly international) card schemes. As a result, many consumers, who are either unable (because their card is not accepted by online merchants) or unwilling (due to security concerns) to use cards for online shopping, have to rely on less efficient and more expensive payment methods (e.g. cash on delivery). On the other hand, many of these consumers already have access to online banking, and would thus be able to benefit from the availability of SEPA-wide Online Banking e-Payment (OBeP) offerings. Given the further growth in online banking that can be expected, this potential for creating value to customers and payment service providers should not be disregarded.

In the light of these facts, the Eurosystem welcomes the ECOFIN Conclusions of 2 December 2009 on innovative payments and shares the ECOFIN's call to the financial industry to deliver solutions for online electronic payments and for mobile payments and to banks and payment service providers to develop and actively market attractive e-payment and m-payment services.

The EPC has been dealing with e-payments for around six years now. At the moment, it is

27 Results of the 2005 and 2006 survey can be found on http://www.esepa.eu.

28 "A Digital Agenda for Europe", COM (2010) 245, 19 May 2010.

29 Seehttp://ec.europa.eu/consumers/strategy/docs/EC_e-commerce_Final_Report_201009_en.pdf.

30 See http://www.emota.eu/images/stories/emotapositiononlinepayments2009.pdf.

working on the design of a framework that outlines specific rules and standards for OBeP schemes that make use of SCT with a payment guarantee for the web merchants. As a first step, the SEPA e-payments framework aims to facilitate (SCT-based) online payments with a guarantee for web retailers. The framework should create the possibility for existing and future OBeP schemes (the most prominent existing schemes being iDEAL in the Netherlands[31], eps in Austria[32]; and giropay in Germany[33]) to exchange messages among each other. This will allow customers from one country to pay an online merchant from another country via his/her online bank account without the need for the customer's and the merchant's bank to both be members of the same OBeP scheme.

In September 2009 the EPC plenary decided that the long-term goal of the SEPA e-payments framework was to create full reachability for consumers. According to the EPC, this can be achieved if:

i) all e-payment schemes in SEPA, which fulfil the minimum criteria defined by the EPC, are enrolled in the framework;

ii) each bank in SEPA is a member of (at least) one e-payment scheme enrolled in the SEPA e-payments framework;

iii) each account holder in SEPA can make SEPA e-payments;

iv) the use of a SEPA logo by the enrolled e-payment schemes provides a consistent user experience throughout SEPA.

In general, the long-term goals expressed in the framework are in line with the expectations of the Eurosystem. However, what is perceived as problematic is that according to the EPC, these goals are entirely optional and will not be made mandatory by the EPC's decisions. This is likely to result in a coordination problem and a wait-and-see approach by the majority of communities and market participants. Concerns have been fuelled by an EPC consultation conducted early 2010, which revealed rather modest ambitions on the part of the European banking communities to adopt the e-payments framework. Some communities even seem to fear that the development of attractive e-payment solutions will diminish their revenue streams from the payment cards business and therefore prefer to continue with card-based solutions for online payments.

The high share of unsuitable and less efficient payment instruments used for online payments and the call of various stakeholders for European solutions have shown that there is not only room but also a genuine need for alternative online payment solutions based on online banking. As a first step, the Eurosystem calls upon existing schemes to become interoperable by allowing the exchange of guaranteed payments between a payer who is a member of one scheme and the payee of another scheme. This interoperability should be based on transparent and open standards, taking advantage of the standards used in SEPA as far as possible (for example ISO 20022 XML, IBAN, BIC). The existing schemes in Austria, Germany and the Netherlands are currently discussing the possibility of testing interoperability by using the work of the EPC on e-payments as the starting point. This proof of concept exercise is fully supported by the Eurosystem, and it is expected that the three schemes will be open to requests of other communities/schemes if they would like to join.

This interoperability should become visible to online shoppers (e.g. by usage of a co-brand). Banks which are currently offering online banking but no online banking-based

31 2009: 45.4 million transactions with a total value of €3.4 billion; for 2010 the number of transactions is expected to increase by 50%.
32 2009: 1.7 million transactions with a total value of €120 million; for 2010 the number of transactions is expected to increase by 20%.
33 2009: 4.6 million transactions with a total value of €290 million; for 2010 the number of transactions is expected to increase by 30%.

e-payments should start to offer these services to their customers. Rather than developing a scheme based on proprietary standards, they should either use open standards when setting up their own scheme or join an existing scheme. In order to be competitive compared with alternative online payment solutions and to facilitate European cross border e-commerce in non-euro area EU countries, services based on online banking should not limit themselves to euro payments but take multicurrency features into consideration as well.

No unwarranted barriers should prevent schemes from becoming interoperable with others; proper governance should ensure that progressive communities are not held back by banks/communities less interested in OBeP. In the medium to long term, interoperability should result in an alignment of business rules and the technical implementation. In order to avoid a lack of competition, proper measures for the separation of the scheme from the processing have to be taken by the existing schemes.

The Eurosystem strongly encourages the payments industry not to neglect the important area of online e-payments, which is essential for the competitiveness of the European online economy.

3.3 DEVELOPMENT OF M-PAYMENTS

Given the proliferation of mobile phones throughout Europe and the opportunity to use the mobile channel to initiate payments, mobile payments are an ideal launch pad for SEPA payment instruments.

Currently, the EPC and other industry groups, such as Mobey Forum, are working on creating the theoretical preconditions for the establishment of an m-payment environment. At the same time, several pilots exist across SEPA. However, a broad implementation of m-payment solutions across SEPA is still not in sight.

In July 2010 the EPC published the first edition of a white paper which provides a high-level description of m-payments in general and mobile contactless card payments, more specifically. Furthermore, the EPC and the Groupe Speciale Mobile Association (GSMA) jointly developed a document that describes the roles and responsibilities of payment application issuers (banks) and mobile network operators in the provision and management of a mobile card payment application on the mobile phone chip card (Universal Integrated Circuit Card (UICC)).

The Eurosystem appreciates the EPC's current work on mobile payments. However, in order to enable the quick development and implementation of mobile solutions and to avoid the development of proprietary solutions with limited (geographical) reach, the main focus should be placed on more tangible results in the forthcoming months. Therefore, the EPC is requested to provide transparency to market participants as to when it will distribute its announced implementation guidelines for the prioritised m-payment categories, namely (i) mobile contactless SEPA card payments; (ii) mobile remote SEPA card payments; and (iii) mobile remote SEPA credit transfers. Based on its assessment of the EPC's work on mobile payments, the Eurosystem expects the overall work on m-payments, within the current scope, to be finalised by mid-2012, at the latest.

In order to facilitate the timely finalisation of its work, the EPC is encouraged to make use of existing work (e.g. by industry groups) as far as possible. In this context, the Eurosystem appreciates the EPC's approach to ensure that all material and standards it refers to are available under (fair), reasonable and non-discriminatory conditions ((F)RAND principle), as defined by the European Commission.

With regard to the prioritisation of m-payment categories, the Eurosystem acknowledges the EPC's decision to analyse mobile contactless payments first, followed by mobile remote payments. From the Eurosystem's perspective, however, the actual implementation of m-payment solutions may not necessarily follow the sequence of the theoretical work, since remote mobile payment implementations might benefit from lower infrastructure investments compared with mobile contactless payments.

Apart from that, mobile prepaid solutions might support m-payments in becoming widely accepted. They would also contribute to the successful introduction of electronic payments in areas where cash-based low value payments dominate. The EPC should, therefore, at least take note of this m-payment category and provide guidance as to how this could fit into the current SEPA card payment and SEPA credit transfer-based set-up.

Among other things, the development of widely accepted m-payment solutions seems to depend, to a large extent, on the decision on a safe and powerful secure element, the development of a coherent set of standards, as well as the establishment of confidence in the mobile environment. As regards the secure element, the EPC and the GSMA, on behalf of the mobile network operators, seem to prefer the UICC. Nevertheless, other alternatives should also be analysed thoroughly. The Eurosystem has no preference for a certain secure element solution, as long as that chosen ensures an adequate level of security and an adequate influence of banks on governance.

With regard to standardisation activities, the EPC is invited to clarify which stance it intends to take. An active involvement in standardisation efforts, with a special focus on payment-related standards, would be welcomed to ensure that European interests are represented appropriately. This includes the engagement in activities for setting up a certification process for the secure element and the applications to be stored therein. In order to establish trust in a mobile environment, an adequate level of security over the whole m-payment value chain needs to be provided. The Eurosystem expects future m-payment solutions to reach at least the same level of security as that in underlying payment instruments.

Overall, the development of m-payment services is still in its early stages. A development strategy accelerating the mass-market adoption of m-payments, developed by the EPC and emanating from existing infrastructures and pilots, could help to resolve the current chicken-and-egg causality dilemma of market players waiting for a large wave of users' demand before investing in new products, while at the same time users' demand cannot grow because products are not available on the market.

Although it is recognised that the establishment of an m-payments environment faces additional complexity due to the large number of stakeholders involved, the Eurosystem expects the initiatives that are/will become active in this area to be aligned with the EPC's theoretical work in order to avoid fragmentation and to enable the development towards SEPA-wide customer offerings.

4 SECURITY OF RETAIL PAYMENTS

Ensuring the security of retail payments is key for consumers and businesses in establishing their trust and confidence in SEPA. The risk-based approach by individual banks may be sub-optimal in achieving a level of security required at the aggregate industry level because the level of commercial risk tolerance may differ from that of social risk tolerance.

In this respect, the Eurosystem's "Harmonised oversight approach and oversight standards for payment instruments"[34] *provides further clarification of the expectations in the area of oversight with regard to security controls. In general, to increase the levels of trust in payment systems and services across Europe,*

34 http://www.ecb.europa.eu/pub/pdf/other/harmonised oversightpaymentinstruments2009en.pdf.

there is a need for more clarity regarding the specific actors involved in defining security requirements and the requirements set by those actors. The Eurosystem will therefore support further efforts to create a common understanding of the relevant security requirements (e.g. two-factor authentication) among all the relevant authorities and market actors. Furthermore it plans to establish a forum for monitoring market developments and fostering the further harmonisation of security requirements within Europe.

At the same time, market participants are encouraged to implement state-of-the-art measures for improving information security and preventing payment fraud. For remote payments, market participants are encouraged to introduce state-of-the-art authentication and migrate to it by the end of 2012. For "card-not-present" payments, secure payment protocols (e.g. 3D secure or virtual cards) should be used. To encourage the use of such security measures, a liability shift (which has been used, for example, as an incentive for EMV migration) should apply.

The Eurosystem has identified some risks relating to overlay payment services and is closely monitoring the developments of such services.

In line with Europol's stance on the future of the magnetic stripe and in support of the industry's efforts to enhance the security of cards transactions by migrating from the "magnetic stripe" to "EMV chip" cards, the Eurosystem considers that, to ensure a gradual migration, from 2012 onwards, all newly issued SEPA cards should be issued, by default, as "chip-only" cards. If the industry decides to keep the magnetic stripe for practical reasons, any data enabling magnetic stripe transactions should be removed. The industry will have to be prepared to offer the cardholder cards with legacy magnetic stripes upon request as long as there are still regions outside SEPA which have not fully migrated to EMV.

4.1 CREATING A LEVEL PLAYING FIELD OF SECURITY FOR RETAIL PAYMENTS

There are two dimensions to the issue of creating a level playing field for the provision of secure payment instruments and services. The first is related to the question whether it is ensured that for similar risks, equivalent security requirements have to be met by the market participants in different European countries. In that respect, the Eurosystem has provided further clarification of the expectations in the oversight frameworks for payments instruments with regard to security controls.[35] The second dimension concerns transparency: taking into consideration the current practices in defining security requirements across Europe, more clarity about the relevant actors and the security requirements mandated by these actors might be beneficial in enabling payment service providers to offer their services throughout Europe as easily as in their home country.

Moreover, the Eurosystem will support further efforts to create a common understanding of the relevant security requirements (e.g. two-factor authentication) among all relevant authorities and market actors. Otherwise the heterogeneous implementation of security requirements might, in practice, lead to different levels of security. The Eurosystem will therefore work on increasing transparency and establishing a common understanding of security measures with a focus on remote payments, in particular online banking, online e-payments, card payments on the internet, and mobile payments. For that purpose, the Eurosystem plans to establish a forum for monitoring market developments and fostering the further harmonisation of security requirements within Europe.

4.2 IMPLEMENTATION OF SECURITY MEASURES BY THE INDUSTRY

The Eurosystem expects payment service providers to increase their efforts to implement state-of-the-art security standards and solutions to prevent fraud ex ante (e.g. through the use of adequate real-time fraud prevention

35 http://www.ecb.europa.eu/press/pr/date/2010/html/pr101013.en.html

measures). First, for remote transactions, regardless of whether they are made by cards or through online banking (see Chapter 3.1), user authentication should be linked cryptographically to the transaction data and should be based, as an absolute minimum, on two independent security factors, including a one-time password which is only valid for a very limited period of time and which, ideally, results from a challenge-response mechanism (e.g. SMS, token or chip-reader). The need for the implementation of stronger security measures is especially evident for "card-not-present" payments. Although these still represent only a minor share of overall card payments, they already account for the majority of card-related fraud in many countries.

Apart from enhanced security measures for customer authentication, the use of secure payment protocols, such as 3D secure, should also be encouraged. In addition, other secured solutions, such as virtual cards,[36] could be used to increase the level of security for "card-not-present" transactions. To promote the introduction of such security measures, a liability shift should apply, as has already been the case, for example, with EMV migration (see Chapter 4.3). This would mean that, in the case of fraudulent transactions, the party that is not enrolled would have to bear the losses. The migration of issuers, acquirers and merchants to these solutions should be finalised by the end of 2012.

Second, the use of sensitive customer data should be limited to the absolute minimum. In particular, such data should not be used in messages exchanged outside the payments infrastructure (e.g. messages exchanged over the internet with merchants). The Eurosystem encourages all stakeholders to take appropriate measures to protect sensitive data, both during the client authentication process and in the storage of such data.

Likewise, online merchants should recognise that it is in their own individual and common interest to have a secure means of payment for e-commerce and they should therefore adopt the necessary measures. Any payment instrument and service they accept should be operating on a sound legal basis and should not require undue behaviour from payers (e.g. breach of terms and conditions with their payment service providers). Online merchants should also comply with national and international data protection standards.

Finally, customers should never give their online banking details to a third party and should only use them within the trusted online environments provided by their banks. As account details are, in practice, widely displayed and thus difficult to protect against compromise, appropriate security requirements should apply to the transactions using these data (e.g. SCT and SDD), particularly during the authentication phase.

The Eurosystem has also carefully considered the provision of overlay payment services. Overlay payment services are offered by third party providers that make use of the existing infrastructure for credit transfers initiated via online banking. When placing an order, customers (i.e. payers) of web merchants that make use of overlay payment service providers are offered to pay via the brand of the overlay payment service provider. If the payer proceeds with this payment method, he/she will be asked by the overlay payment services provider for his/her online banking login details as well as his/her transaction authorisation data. With this information, the overlay payment services provider logs on to the payer's online banking account, checks whether the payer's account has liquidity and, if this is the case, initiates a credit transfer on his/her behalf. Given that personal authentication data are communicated to actors outside of the banking environment, the Eurosystem has identified some risks relating to those services and is monitoring their development.

36 Virtual cards are a set of temporary numbers, which can only be used for a given transaction or within certain limits.

4.3 MIGRATION FROM "MAGNETIC STRIPE" TO "EMV CHIP" PAYMENT CARDS

In order to improve the security of card transactions at POS terminals and ATMs, the European payment industry has agreed on the need to migrate from "magnetic stripe" to "EMV chip". The use of EMV specifications for cards and terminals, together with the use of PINs, will make card transactions more secure. By using a chip card instead of a magnetic stripe card, stronger cryptographic algorithms can be used to authenticate cards. One measure to encourage EMV migration has been the introduction of a liability shift rule in the SCF. To improve the minimum level of security reached with the EMV migration of chip cards, SDA[37] chip cards should be banned as soon as possible.

Now, more then ten years since the start of EMV implementation, the migration from magnetic stripe to EMV chip is almost complete for payment cards, POS and ATMs in SEPA. According to the ECB's SEPA card indicators for EMV-migration,[38] at the end of the second quarter of 2010, the migration status of cards in the EU was 76%, whereas POS terminals stood at 85% and ATMs at 95%. It is important to bear this in mind in the context of the migration deadline of end-2010 as defined in the SCF.

Completion of the migration towards EMV specifications for physical devices (i.e. cards and terminals) is an important prerequisite for migration also at the level of transactions, i.e. card payment transactions with EMV-compliant cards at EMV-compliant terminals, using EMV technology in the processing of the transaction. The Eurosystem[39] is monitoring progress in this area and has found that, in June 2010, 57% of all POS transactions in the euro area were EMV transactions.[40] The Eurosystem expects that this transaction-level indicator will continue to increase gradually.

The presence of magnetic stripes on chip cards with customer and account identification data makes the card vulnerable for "skimming", i.e. the unauthorised reading of the data contained in the magnetic stripe via a manipulated or fake terminal or with a handheld reading device.[41] The question is therefore whether the magnetic stripe should be removed altogether or, if that is not feasible for practical reasons (e.g. access to self-service areas of bank branches and ATMs), whether any data enabling magnetic stripe transactions should be removed.

A magnetic stripe with data enabling the processing of magnetic stripe transactions would remain necessary for a SEPA cardholder to make ATM withdrawals or POS payments in non-EMV locations outside SEPA, for example the United States. Consequently, cardholders should be given a choice by offering them a dual-card approach (e.g. for cases where the customer informs the issuer that he/she intends to travel to a non-EMV destination).

In line with Europol's stance on the future of the magnetic stripe and in support of the industry's efforts to enhance the security of card transactions by migrating from magnetic stripe to EMV chip, the Eurosystem considers that, from 2012 onwards, all newly issued SEPA cards should be issued, by default, as "chip only" cards. If the industry decides to keep the magnetic stripe for practical reasons, magnetic stripes should not contain any data enabling magnetic stripe transactions. However, as long as there are still regions outside SEPA which have not fully migrated to EMV, the industry will have to be prepared to offer cardholders, on request, cards with legacy magnetic stripes.

37 SDA (static data authentication) offers no protection against counterfeiting of such chip cards.
38 The indicators are compiled on the basis of quarterly data collected by the EPC. For further information, see http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html.
39 The results are published on the ECB's website (http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html).
40 Obviously, a share of these transactions are made by cards from countries where the migration to EMV has not yet started.
41 The data obtained by skimming could subsequently be used in "card-not-present" fraud.

5 RETAIL PAYMENTS INFRASTRUCTURES

The European retail payment infrastructures provide the clearing and settlement of payment transactions and, thus, play a key role in the success of SEPA. Infrastructures wishing to be active in SEPA have made public their self-assessments based on the Terms of Reference (ToR) for SEPA-compliance provided by the Eurosystem. These self-assessments show compliance with the requirements of SCT and SDD schemes. However, interoperability between infrastructures needs to be improved further, and the remaining obstacles need to be removed. The Eurosystem's understanding of interoperability is a set of technical and business procedures that enables the clearing and/or settlement of SEPA payments between two banks that participate in two different infrastructures without having to use a participant in the other's system as an intermediary. The Eurosystem has clarified and discussed its expectations with the industry. Based on these discussions, the Eurosystem invites all infrastructures that are active in the euro area and aim at being SEPA-compliant to engage in an open dialogue on enabling interoperability. Furthermore, the Eurosystem invites the EPC to follow up on its commitment to enter into a structured dialogue with the infrastructures, e.g. by creating a dedicated forum for such relations. The Eurosystem expects that SEPA-compliance of infrastructures will be achieved, at the latest, by the end of 2012.

Besides the core clearing and settlement function, a number of infrastructures also offer additional payment processing services. This may be one of the reasons why market consolidation has not materialised so far. Indeed, infrastructures that had planned to close down have actually prolonged their life cycle, and new infrastructures have been established. One of the reasons for this may be that participants either could not find the required services and level of participation offered elsewhere and/or they decided to postpone, for strategic reasons, transferring their business to one of the infrastructures active at the pan-European level.

5.1 SEPA-COMPLIANCE OF INFRASTRUCTURES

The European retail payments infrastructures provide the clearing and settlement of payment transactions and, thus, play a key role in the success of SEPA. At present, 17 infrastructures enable the clearing of SCT[42] in accordance with the EPC's SCT scheme rulebook and the PE-ACH/CSM framework,[43] and 11 infrastructures enable the clearing of SDD. Besides the core clearing and settlement function, a number of infrastructures also offer additional payment processing services. Consequently, SCT and SDD scheme participants should be able to choose which infrastructure they want to use for the clearing and settlement of their transactions and where to outsource all or part of their payment processing, if they wish to do so.

To enable reach for SEPA payments beyond their own members, a number of infrastructures have established interoperability links based on the technical interoperability framework set up by the European Automated Clearing House Association (EACHA). STEP2 provides reach through its own participants and by registering financial institutions serviced by other infrastructures as indirect participants; other infrastructures can act as technical facilitators on behalf of direct participants acting as intermediaries.

In its 5th SEPA Progress Report, which was published in July 2007, the Eurosystem defined four criteria for assessing SEPA-compliance of infrastructures. The aim of these criteria was to favour SEPA migration and the integration of clearing and settlement infrastructures, based on fair competition and a respect for the freedom

42 SCT scheme compliant: ACH Finland, Bankart, Bankservice JSC, CEC, RPS, Equens, Eurogiro, Iberpay, DIAS, KIR, STEP.AT, ICBPI/BI-COMP, SIA-SSB/BI-COMP, SIBS, STET, VocaLink, STEP2. SDD scheme compliant: Bankservice JSC, RPS, Equens, Eurogiro, Iberpay, DIAS, ICBPI/BI-COMP, SIBS, STET, VocaLink, STEP2.

43 The EPC's PE-ACH/CSM framework establishes the principles on which Clearing and Settlement Mechanisms (CSMs) support the schemes for SCT and SDD on the basis of the separation of scheme from infrastructure.

of payment service providers to choose which infrastructure they wish to use. The requirements set therefore related specifically to the processing capabilities, interoperability, reachability and choice for banks. The Eurosystem, acting as a catalyst, invited all infrastructures to comply with these criteria.

In April 2008, the Eurosystem published more detailed ToR for SEPA-compliance of infrastructures (i.e. a set of questions directly related to the compliance criteria). Based on the Eurosystem's ToR, most relevant infrastructures (i.e. Bankart, CEC, Dias, EKS, EBA Clearing, Eurogiro, Equens, Iberpay, ICBPI/BI-COMP, KIR, RPS, SIA-SSB/BI-COMP, SIBS, STEP.AT, STET, VocaLink) conducted self-assessments and published the results, thereby providing more transparency to the market.

The Eurosystem compared and analysed the results of these self-assessments and discussed its findings with the market. Whereas the processing capabilities requirements of SCT and SDD do not present a problem for SEPA-compliance, the Eurosystem concluded that interoperability between infrastructures needed to be improved further (see Chapter 5.2).

Based on the analysis and discussion of the self-assessments and on other feedback received from the market, the Eurosystem will review the SEPA-compliance criteria and the ToR, taking into account SEPA-relevant developments in the infrastructure market. It will also monitor the development of the market towards full SEPA-compliance, which is expected to be concluded, at the latest, by the end of 2012.

As far as the infrastructure market for retail payments is concerned, it should be noted that large-value payment systems (LVPS) also feature among the relevant actors. Retail payments are not only exchanged bilaterally and via retail payment systems, but also to a limited extent via LVPS. For instance, a number of the transactions settled in TARGET2 (i.e. the RTGS operated by the Eurosystem) can be considered as retail payments in terms of value. One of the reasons for processing such payments via TARGET2 is their urgency.

TARGET2 was developed at a time when the exclusive usage of ISO 20022 message standards was not possible. While TARGET2 already makes use of some XML-based messages, for example for the interaction with ancillary systems or for access to its information and control module, the bank-to-bank payment flow is still exclusively based on SWIFT FIN/MT standards. Bearing in mind the Eurosystem's commitment to the SEPA project and the expected migration end date regulation, the Eurosystem is currently considering adapting the TARGET2 system to accept the remittance of ISO 20022 XML transactions. A consultation of the industry is currently ongoing to get feedback from the TARGET2 users on this initiative. The implementation of ISO 20022 XML in TARGET2 would offer payment service providers the possibility of using TARGET2 for SEPA-compliant customer payments, which would then be processed and settled in real time. The usage of the current SWIFT FIN/MT standards would, however, still be allowed in TARGET2 for payments falling outside the scope of SEPA.

5.2 BUSINESS AND TECHNICAL INTEROPERABILITY

Of the four criteria of the Eurosystem's ToR for SEPA-compliance of infrastructures, interoperability has generated the most intensive debate. From the feedback on the ToR and the subsequent discussion, the Eurosystem concluded that, as there appeared to be a range of different interpretations of the concept in the market, a clarification of "interoperability" was necessary.

With a few exceptions, all infrastructures stated that they had adopted interoperability rules for the clearing of SCT and SDD, either with banks alone or with both banks and other infrastructures. However, the question arose as to whether the adoption of interoperability with banks alone can be regarded as interoperability in terms of the original criterion, which was designed to enable two infrastructures to interlink to settle payments, each for its own participants.

Moreover, to provide reach for euro payments across SEPA, it is not possible for all infrastructures to interlink without having recourse to participants in the other's system as an intermediary. In some cases, connectivity is achieved through links established via banks, not infrastructure-to-infrastructure. Therefore, the Eurosystem decided to extend the definition of interoperability from the technical level to the business level. Subsequently, this extended definition has been presented to the market and discussed.

At the technical level, mutually or multilaterally agreed interoperability rules (e.g. interface specifications and other relevant procedures for the clearing and/or settlement of SCT and SDD between infrastructures) should be adopted. At the business level, it should be possible to establish links between infrastructures on an equal footing, i.e. without the need for recourse to participants in the other's system as intermediaries and/or for imposing participation or registration obligations on users of other infrastructures to be able to send, receive and settle payments.

Interoperability is therefore understood to refer to a set of technical and business procedures that enables the clearing and/or settlement of SEPA payments between two banks that participate in two different infrastructures. In SEPA, it should be sufficient for a bank to be a participant in one SEPA-compliant infrastructure without also having to be a direct or indirect participant in another one.

Furthermore, scheme participants should not be obliged to process their payments in a specific infrastructure. If several alternative interoperability links exist, banks initiating payments should ideally have the possibility of choosing which link is used to process their payments, provided that the creditor's bank (in the case of SCTs) or the debtor's bank (in the case of SDDs) can be reached through alternative links. In other words, if infrastructure A has established links to infrastructure B and infrastructure C, then the creditor's/debtor's bank must be reachable through both infrastructures B and C, and the bank initiating the payment should, ideally, be able to choose its preferred link for its transactions.

At the technical level, it is recognised that a layer of cooperation is needed in the market, and that a dialogue between the different infrastructures needs to be established. The Eurosystem invites all infrastructures that are active in the euro area to engage in such a dialogue. In parallel, the Eurosystem invites the EPC to follow up on its commitment to enter into a structured dialogue with the infrastructures, for example by creating a forum for EPC-infrastructures relations, which could undertake a review of the PE-ACH/CSM framework.

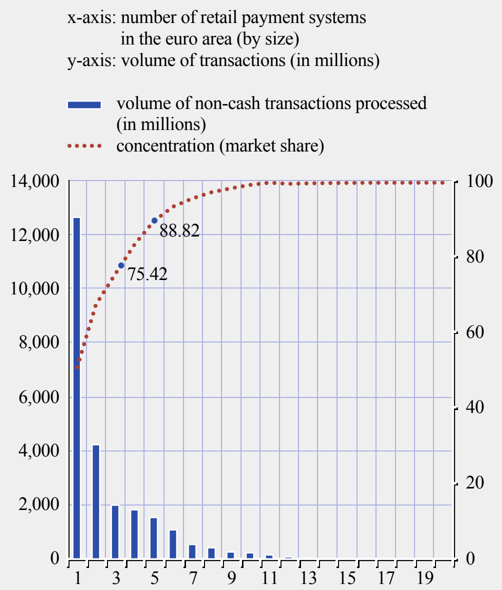
5.3 INTEGRATION IN THE RETAIL PAYMENT INFRASTRUCTURE DOMAIN

In the 4th SEPA Progress Report, which was published in February 2006, the Eurosystem declared that, following the introduction of SEPA instruments and the realisation of interoperability, it expected the number of infrastructures in Europe to decrease substantially. Despite the steps taken by a number of infrastructures to become service providers at the European level, this has not yet happened. Although some integration has occurred at both the national and cross-country levels,[44] there has so far been only one market

44 Merger of Transaktionsinstitut für Zahlungsverkehrsdienstleistungen (TAI) and Interpay to form Equens in 2006, http://www.equens.com/aboutus/organisation/development.jsp;
Merger of SIA and SSB to form SIA-SSB in 2007, http://www.siassb.eu/Engine/RAServePG.php/P/250210010404;
Merger of Banksys and BCC to form ATOS Worldline in 2007, http://www.atosorigin.com/en-us/Newsroom/en-us/Press_Releases/2007/2007_06_01_02.htm;
Merger of Voca and LINK to VocaLink in 2007, http://www.vocalink.com/en/AboutUs/Press%20room/2010pressreleases/2007archive/Pages/VocaandLINKmergeandlaunchpan-Europeanclearingservice.aspx;
Merger of PBS, BBS and Teller expected to be completed in 2010, http://www.pbs.dk/en/themes/news/Pages/news-20100105-merger_approved.aspx.

Chart 8 Concentration ratio of retail payment systems in the euro area

(2009; percentages)



Sources: ECB, Statistical Data Warhouse, September 2010.

exit. Infrastructures that had planned to close down have prolonged their life cycle, and new infrastructures have been established, either because users could not find the services and level of participation they required offered elsewhere or because they decided to postpone, for strategic reasons, transferring their business to one of the infrastructures active at the pan-European level.

The ECB's April 2010 report on financial integration in Europe[45] provides information on the current concentration ratio of retail payment infrastructures in the euro area. Data from 2009 shows that the three largest infrastructures process 75% of the total market volume and that the five largest ones process 89% (see chart 8). At first glance, this may be an indication of the number of infrastructures to be expected when mass migration to SEPA instruments takes place. However, it should also be taken into account that these figures relate only to the core clearing and settlement function. In fact, a number of infrastructures are also active in providing additional services for processing payments, stating that the core clearing function only generates a small fraction of their revenues. To reduce processing costs, smaller banks or banking communities in particular are in favour of buying value added payment processing services (e.g. sorting and reconciliation facilities) from infrastructures instead of developing and operating them themselves. These may be reasons why the market has not consolidated and why, contrary to the Eurosystem's initial expectations, new infrastructures have been established. Further analysis of this issue will be undertaken in due course.

6 SEPA MIGRATION

Despite achieving a number of milestones, SEPA migration, as a self-regulatory process, has not achieved the required results. The banking industry's self-imposed deadline of December 2010 for SEPA instruments to be in general usage – which was shared by the Eurosystem and the European Commission – will not be met. Obviously, moral suasion has only had a limited impact. To ensure the materialisation of SEPA benefits, a migration end date by regulation for SCT and SDD is required and should be set by the EU legislator. Therefore, the Eurosystem welcomes the European Commission's initiative to impose an end date for migration by means of an EU regulation.

The Eurosystem expects that a mandatory timeline for migration to SEPA instruments will significantly accelerate the pace of transition, enabling SEPA to be completed, preferably, by the end of 2012 for credit transfers and by the end of 2013 for direct debits.

The Eurosystem recommends that the phasing-out of the €50,000 threshold for equal charges should be considered when Regulation (EC) No 924/2009 on cross-border payments is reviewed in 2012.

45 http://www.ecb.europa.eu/pub/pdf/other/financialintegrationineurope201004en.pdf?2b7a91f76367c79901ee704048bd87e3.

As discussed in Chapter 1, the slower-than-expected migration to SEPA would suggest that adherence and reachability have not been enough of an incentive. A review of SEPA milestones for 2009 and 2010 and of the Eurosystem's expectations for SEPA has revealed that, besides the need to raise SEPA awareness, to bring SEPA higher up the list of priorities for big billers and to offer attractive services in relation to SCT and SDD, regulatory intervention is also required.

6.1 REVIEW OF SEPA MILESTONES FOR 2009 AND 2010

To provide clarity and certainty with regard to the requirements and expectations to the various stakeholders, the Eurosystem defined milestones for SEPA implementation and migration for 2009 and 2010 in the 6th SEPA Progress Report. These milestones contained the respective deadlines, entities in charge and stakeholders.

The Eurosystem has regularly monitored progress in achieving the milestones and has provided guidance where necessary. The analysis reveals that a substantial number of tasks have been completed: the SDD MIF debate for the interim solution has been closed (milestone 2); Regulation (EC) No 924/2009 on cross-border payments has entered into force (milestone 3); SDD reachability has been made mandatory (milestone 5); and the report by the European Commission's Expert Group on e-Invoicing has been finalised (milestone 7).[46] Work on some other dossiers has not yet been completed but is on track: the definition of SCT and SDD migration end dates (milestones 4 and 8); PSD transposition at national level[47] (milestone 6); and SEPA for cards (milestone 10). However, there are also some topics for which the aim has been only partially fulfilled or not fulfilled at all: work on SDD mandate migration (milestone 1) lags considerably behind in one euro area country; and there has been less progress on the request for an additional European card scheme (milestone 9) than had been originally hoped for.

In addition to the milestones, the Eurosystem also defined a number of tasks necessary for the fulfilment of SEPA milestones. As for the milestones, a substantial number of tasks have been finalised, but others have not yet been completed but are on track. Those tasks where progress has been unsatisfactory are: the delivery of a cards processing framework (task 16); an implementation framework for SEPA online payments (task 20); and the decision on a migration/implementation path for cards standards (task 22).

The Eurosystem is pleased that most of the milestones and tasks have either been achieved or have shown good progress. At the same time, the exercise highlights some areas of concern where insufficient progress has been made, most notably the cards dossier and SEPA online payments.

As the milestones and the tasks have proven to be a useful monitoring tool, it has been decided to establish a similar exercise for the period from the fourth quarter of 2010 to the end of 2013 (see annex).

6.2 NEW SEPA MILESTONES FROM THE FOURTH QUARTER OF 2010 TO THE END OF 2013

The Eurosystem has identified a further set of milestones that are to be accomplished between the fourth quarter of 2010 and the end of 2013 (see annex). The completion of these milestones is decisive and will facilitate the finalisation of SEPA implementation and migration.

This list contains the respective deadlines, entities in charge, stakeholders concerned and a brief explanation of the background. The list

46 The recommendations in the final report of the Expert Group on e-Invoicing that was published in November 2009 focus on the definition of essential business requirements, the necessary legal framework, standards to ensure interoperability between existing schemes and a coordinated approach for implementation and communication.

47 With the exception of Poland (where the adoption and entry into force is planned for November 2010) the PSD has now entered into force in all EU Member States.

is not intended to be exhaustive – and, as time goes on, and in response to new developments, other priorities may be identified - nor does it constitute a detailed project plan. But it does clearly identify the conditions still outstanding which are deemed necessary for SEPA migration, thereby making it easier to manage the project and monitor progress.

6.3 EUROSYSTEM'S SEPA EXPECTATIONS

In response to requests by stakeholders, the Eurosystem developed and published a set of informal and non-binding expectations as regards the future of SEPA. The Eurosystem's SEPA expectations, which were published in March 2009, were meant to provide support for banking communities and payment institutions. They were also meant to provide users with guidance about how to adjust their payment-related activities and information about what they can expect from their bank or payment institution.

With regard to SEPA providers, the aim was that the expectations published by the Eurosystem will serve as a benchmark. Providers were invited to assess regularly and autonomously the services they offer against the criteria and recommendations and to publish the results.

For users, the expectations were meant to show how migration to SEPA can be promoted actively, to provide guidance for implementing SEPA and, moreover, to give an impression of what the successful implementation of SEPA would mean for them, as well as how they could benefit from it.

Overall, the limited feedback on the publication of the Eurosystem's SEPA expectations has shown that moral suasion for promoting SEPA migration has not produced the desired results. Only a few banks and payment institutions provided feedback by using the self-assessment templates provided in the document. This further underlines the need for regulatory action. At the same time, the Eurosystem's expectations remain valid, and national SEPA fora are encouraged to make active use of them in their planning for SEPA migration.

6.4 REGULATION FOR SEPA MIGRATION END DATE

The Eurosystem has repeatedly drawn attention to the need for an ambitious but realistic end date to be set for the migration to SCT and SDD, in order to reap the benefits of SEPA. Although the potential benefits of the SEPA project are substantial, the primarily market-driven approach cannot be characterised as fully successful. While scheme adherence and reachability for SDD will be realised more fully in November 2010 and a number of public administrations had committed to migrate their payments to SEPA by the end of this year, it is far from clear whether these factors alone will lead to a significant increase in the current rate of SEPA migration.

The prevailing market uncertainty, the generally difficult economic climate, the disadvantages for first movers in a network business, and the duplicate costs of operating SEPA and legacy payment systems in parallel are reasons which have led many market players, especially on the supply side, to call for the establishment of an end date for SEPA migration by EU-wide legislation. These calls have found support from the European Parliament[48] and in the latest set of SEPA conclusions adopted by the ECOFIN Council.[49]

The European Commission outlined the scope, definitions and main features to be covered by a SEPA migration end date in a working paper that was published for consultation in June 2010.[50] Already at this stage, the Eurosystem expressed its support for the European Commission's suggestion to impose

48 On 10 March 2010 the European Parliament adopted a Resolution inviting the Commission to set a clear, appropriate and binding SEPA migration end date which should not be later than the end of 2012.
See http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0057+0+DOC+XML+V0//EN.

49 See ECOFIN Council conclusions of 2 December 2009.

50 http://ec.europa.eu/internal_market/payments/docs/sepa/end-date_migration_en.pdf.

an end date for migration to SCT and SDD by means of an EU regulation.[51] Such legislative initiative is expected to ensure that SCT and SDD will become the credit transfer and direct debit schemes used for euro payments in the EU. After the migration end date, they will have replaced national legacy credit transfer and direct debit schemes in the euro area. With regard to the actual end date(s), the Eurosystem expects that a mandatory timeline for migration to SEPA instruments will significantly accelerate the pace of transition, enabling SEPA to be completed, preferably, by the end of 2012 for credit transfers and by the end of 2013 for direct debits. It should be understood that the actual migration end date(s) will be the outcome of a joint decision between the European Parliament and the EU Council under the ordinary legislative procedure, following the launch of a draft EU regulation.

The Eurosystem welcomes and supports the European Commission's suggestion to impose an end-date for migration to SEPA credit transfers and SEPA direct debits by means of an EU regulation. A legally binding instrument is considered as necessary for a successful migration to SEPA as the project would otherwise be under serious risk of failure.[52]

Furthermore, the Eurosystem recommends that the phasing-out of the €50,000 threshold for equal charges should be considered when Regulation 924/2009 on cross-border payments in euro is reviewed in 2012, bearing in mind that such a threshold can be perceived as an obstacle to the full realisation of SEPA.

7 GOVERNANCE OF RETAIL PAYMENTS IN SEPA

The governance structure of SEPA has been improved by the creation of the SEPA Council, which will enable a more formalised involvement of high-level representatives of the demand side in the SEPA dialogue. It will also help to improve the awareness and public perception of SEPA, with the ultimate goal of facilitating SEPA migration. It will liaise with the national SEPA fora to implement the strategic decisions taken in various EU Member States.

The Eurosystem calls for better involvement of end users in some of the national SEPA fora and asks them to address retail payment concerns and challenges appropriately in the form of a social dialogue.

The Eurosystem invites the EPC to strengthen its governance in the area of payment innovation, allowing for development and innovation, even if it is not supported by a majority of members. If this is not considered feasible, the coordinated development of innovative services by interested banks or banking communities should be facilitated outside the context of the EPC, provided that it is in line with the framework for the core SEPA schemes and that adherence is open for all providers of payment services within SEPA.

SEPA communication for end users has to be stepped up. This requires a coordinated and targeted approach by European and national authorities, the banking industry and the members of the national SEPA coordination committees.

7.1 SEPA COUNCIL

Since the publication of the 6th SEPA Progress Report, the focus of discussions on SEPA governance has widened from being primarily concerned with the governance of the EPC to taking a broader angle, particular with regard to stakeholder involvement, transparency and the SEPA migration process. As it became more and more apparent that the SEPA project has reached the limits of what self-regulation can deliver, it was recognised that SEPA is not only a business project, but is also closely linked to the political ambition of moving towards a more integrated, competitive and innovative Europe. Correspondingly, it has been recognised that SEPA and retail payment issues in general need to be addressed in a social dialogue. In March 2010 the Eurosystem and the European

51 Comment published on 6 July 2010.
52 See comment published on 6 July 2010.

Commission agreed on the creation of the SEPA Council, a new, overarching body with a wide range of stakeholders represented at the highest level in order to discuss and resolve political issues which prevent the realisation of SEPA. This body is not intended to replace any existing groups or governance structures at the European or national levels, such as the EPC or national SEPA fora or their respective substructures. It focuses on identifying key issues of concern to public authorities and other stakeholders, defining priorities, promoting action and fostering a common understanding among users. It will liaise with national SEPA fora with regard to implementing the strategic decisions taken in the various EU Member States.

The SEPA Council is co-chaired by the ECB and the European Commission. It is a small body of 16 high-level members, i.e. the two co-chairs plus five representatives from the demand side,[53] five representatives from the supply side[54] and four Eurosystem NCB representatives (on a rotating basis).

The goals of the SEPA Council are: i) to promote the realisation of the SEPA vision and provide a strategic direction for EU retail payments in euro; ii) to ensure the accountability and transparency of the SEPA process through the involvement of all actors concerned; and iii) to monitor and support the SEPA migration process.

The first meeting of the SEPA Council took place on 7 June 2010. It marked a crucial step towards the realisation of SEPA because, for the first time ever, the different stakeholders agreed publicly to support the establishment of SEPA migration end date(s) by legislation. This is reflected in the formal declaration adopted by the members present in the meeting and published on 14 June 2010.[55]

Overall, the Eurosystem considers that the SEPA Council allows for a substantial improvement regarding the users' involvement in the SEPA project and is expected to facilitate significantly SEPA migration as users are better associated with the project. The next meeting is planned for the end of 2010.

7.2 INVOLVEMENT OF END USERS IN NATIONAL SEPA COORDINATION COMMITTEES

The establishment of the SEPA Council is a big step towards the greater involvement of users. However, it cannot be expected to automatically resolve all related issues. Users need to be involved at the national level, too, where more detailed work for the implementation of SEPA takes place.

Unfortunately, user involvement at the national level is currently not always the case. There are some countries where users are not members of the national SEPA coordination committees and there is no social dialogue on retail payments. There are also cases where some categories of users are involved in these committees, but not the whole spectrum of different user groups (i.e. consumers, merchants, SMEs, corporates and public administrations).

The Eurosystem believes that the appropriate involvement of users at the national level is a key factor for the successful migration of SEPA. Furthermore, it is also crucial for the functioning of the SEPA Council, given that members of the SEPA Council are expected to coordinate their position with their associations or organisations before each meeting. This presupposes that associations/organisations, also at the national level, are sufficiently aware of SEPA issues. Therefore, their involvement in national SEPA coordination committees is important.

53 Consumers are represented by the European Consumers Organisation – BEUC, retailers are represented by Eurocommerce & ERRT, Corporates are represented by EACT & BusinessEurope, SMEs are represented by the European Association of Small and Mid-sized Enterprises – UEAPME and national public administrations are represented by the Chair of the Financial Services Committee.

54 Represented by the EPC, the European Association of Co-operative Banks – EACB, the European Savings Bank Group – ESBG, the European Banking Federation – EBF and, in due course, a representative of payment institutions.

55 http://www.ecb.europa.eu/paym/sepa/pdf/END_DATE_DECLARATION.pdf?4e80747cc22155c2846d46f99821de6e.

The Eurosystem urges national SEPA fora and user associations/organisations to address this situation, not least in light of the forthcoming SEPA migration end date regulation and the options for the SDD implementation, which are crucial for users. Special focus needs to be put on consumers, SMEs and public administrations.

7.3 EPC GOVERNANCE

Since the 6th SEPA Progress Report, the EPC has amended its charter, allowing payment institutions to become members of the EPC. Although an association for payment institutions has not yet been established, payment institutions are already represented in the EPC plenary and working groups, which is highly welcome.

The EPC Secretariat has also been provided with more staff, which will enable them to provide improved support to EPC activities.

The EPC is currently funded by its members. Following the roll-out of the schemes, other funding models could be considered, for example a yearly fee for adhering to SEPA schemes. Funding by fees would provide the EPC with a stable income, allowing them to dedicate sufficient resources to current and future tasks.

Transparency is still an issue where further improvement could be made. Although documents related to SEPA schemes are published regularly and a newsletter has been introduced, information about the decision-making process and agreements reached by the EPC are still not sufficiently available for the public.

The slow progress made by the EPC in the area of payment innovation (see Chapter 3) has brought to light the issue of how innovation could be promoted in a more efficient way. As the current framework stands, banks or groups of banks that are not interested in offering certain innovations or AOSs can block or delay development that is considered important by other banks. Taking into consideration the diverging priorities and areas of interest among banks, the current set-up, with a two-thirds majority required for the development of SEPA schemes, even in the case of optional services, contributes to the slow progress made within this area, to the detriment of banks that would like to bring more forward-looking services to the market.

To support payment innovation, the EPC should therefore reconsider its governance model for the development of innovative services based on the core SEPA schemes, either by facilitating developments within the EPC or by enabling such developments to unfold in a coordinated way outside the EPC. The Eurosystem considers that the EPC should keep the lead in developing innovative payments. However, the current governance model would have to be amended, enabling banks to bring forward new services, even if other banks or groups of banks are hesitant or lack interest for such developments. If this is not considered a feasible, the coordinated development of innovative services by interested banks or banking communities should be facilitated outside the context of the EPC, provided that it is in line with the framework for the core SEPA schemes and that adherence is open for all payment service providers within SEPA.

The establishment of the Customer Stakeholders Forum and the Cards Stakeholders Group is welcome. It is very important that the supply and demand sides of the payment market are able to meet and exchange views on an equal footing. With regard to the Customer Stakeholder Forum, the EPC is invited to consider broadening the scope of this forum in order to facilitate also a dialogue on innovative payments (e.g. e- and m-payments).

7.4 SEPA COMMUNICATION

As reflected in the formal declaration adopted by the SEPA Council, targeted communication is recognised as a necessary prerequisite to achieve the goals of SEPA. Communication on SEPA takes place at different levels. Each level involves different stakeholders and pursues different goals.

At the political level, SEPA communication is mainly directed at European public authorities, European decision-making industry bodies and European associations/organisations representing end user groups. The current communication provided by the European Commission and the Eurosystem focuses mainly on governance issues, rules for competition and the prerequisites for enabling SEPA migration.

At the technical level (e.g. issues related to SEPA rulebooks, formats and standards), SEPA communication is aimed at experts at the European and national levels. Their challenge is to generate a good understanding of the design and implementation of the technical solutions necessary to realise SEPA.

At the end user level, SEPA communication needs to reach all citizens, corporates and public and private bodies that send and receive payments in euro. The decisions taken at the European political and technical levels have to be transposed into national contexts, which is the major challenge of the national SEPA coordination bodies. The resulting SEPA products and services have to be explained to the end users, so that they understand the motivation and the effects of SEPA on their everyday payments. It needs to be initiated at the national level, in national languages, with the aim of reaching every single business relationship involving a euro payment.

Overall, communication at the political and technical levels has been adequate, apart from some difficulties in involving end user representatives at these levels in an appropriate way. However, communication for end users has to be stepped up. Enhanced SEPA communication for end users may help to generate demand for SEPA products, provided that the SEPA products are fully available and meet the customers' needs.

When communicating SEPA to customers, language and messages need to be adapted to the recipients of the communication. Providing specific, practical information on SEPA is a national task that needs to be detailed down to the levels of products and services offered, making sure that it is in line with the political and technical framework. End users need to be made aware of the necessary steps for changing to SEPA (e.g. for easily migrating to IBAN and BIC) and of the advantages it will bring.

With the upcoming SEPA migration end date regulation, the situation of the SEPA project is changing substantially. Once the SEPA migration end date(s) has been set, it is of the utmost importance that a coordinated communication effort on the migration end date is undertaken by European and national public authorities, the banking industry and the national SEPA coordination committees.

The rationale for such coordinated communication effort is that the SEPA migration end date(s) will set a clear timeframe. SEPA migration will become mandatory. Citizens may ask why they will not have a choice between SEPA and legacy payment instruments any more. Therefore, easily accessible information on the prerequisites and benefits of SEPA need to be made available to the public.

8 CONVERGENCE OF CASH SERVICES IN SEPA

The implementation of measures included in the roadmap for procedural steps towards a convergence of cash services offered by euro area NCBs is progressing. In July 2010 the European Commission adopted a proposal for an EU regulation on the professional cross-border transportation of euro cash by road between euro area member countries. The electronic data exchange with professional clients for cash lodgements and withdrawals and common packaging standards for NCB's basic free-of-charge cash services are under development.

Since the introduction of euro banknotes and coins, the Single Euro Cash Area (SECA) has been a reality for European consumers. For professional clients, major steps have been undertaken towards the convergence of cash services offered by euro area NCBs. Moreover, in February 2007, following the consultation of the relevant European stakeholders, the Eurosystem adopted a roadmap for the further convergence of NCB cash services.

Since then, a number of measures included in the roadmap have been, or are in the process of being, implemented. In addition to those measures discussed in the 6th SEPA Progress Report, there has been progress in lifting the obstacles to the free circulation of the euro, which stem from different national rules governing cash transportation. After the publication of a White Paper in 2009, the European Commission adopted on 14 July 2010 the proposal for an EU regulation on the professional cross-border transportation of euro cash by road between euro area member countries. Thereby, the European Commission proposes to facilitate the cross-border transportation of euro cash within the euro area by introducing a set of common EU rules for cross-border transports. In addition, a separate proposal will extend the scope of the rules to the territory of EU Member States that have not yet adopted the euro as from the date when the European Council decides that they are allowed to introduce the euro (i.e. around six months before the cash changeover).

The proposals will be submitted to the European Parliament and the EU Council for adoption. The Eurosystem fully supports this initiative.

Two further measures included in the roadmap are currently being finalised:

1) Electronic data exchange with professional clients for cash lodgements and withdrawals.

   The Eurosystem is implementing a harmonised approach for electronic communications with professional clients that ensures the interchangeability of data for cross-border cash transactions. A common interface, the Data Exchange for Cash Services (DECS) will be based on the two main formats existing in the Eurosystem: GS1 and CashSSP. NCBs are expected to communicate their time plan for the implementation of their cash IT applications and their connection to the DECS interface by the end of 2010. The DECS interface will be available by the first quarter of 2011.

2) Common packaging standards for NCBs' free-of-charge cash services.

   After harmonising the packaging for Eurosystem internal banknote transactions, the Eurosystem has now been considering a limited number of packaging standards with common contents for free-of-charge cash services for professional clients. NCBs may use additional packaging formats, if requested at the national level. The requirements of the main stakeholders, represented by the EPC and the European Security Transport Association (ESTA), have been gathered and compared to existing packaging formats and cash handling arrangements at the NCBs in order to identify common elements as well as constraints. The ECB is finalising the lists of requirements for the common packaging types. Each NCB shall accept at least one type of packaging (i.e. cardboard boxes, re-usable boxes, safebags or sealed bags) with its customers.

Taking due account of the investment cycles, a transitional period for the implementation of the standards will be allowed.

ANNEX

SEPA MILESTONES FROM THE FOURTH QUARTER OF 2010 TO THE END OF 2013

The Eurosystem has identified a further set of milestones that are to be accomplished between the fourth quarter of 2010 and the end of 2013 (see annex). The completion of these milestones is decisive and will facilitate the finalisation of SEPA implementation and migration.

This list contains the respective deadlines, entities in charge, stakeholders concerned and a brief explanation of the background. The list is not intended to be exhaustive – and, as time goes on, and in response to new developments, other priorities may be identified nor does it constitute a detailed project plan. But it does clearly identify the conditions still outstanding which are deemed necessary for SEPA migration, thereby making it easier to manage the project and monitor progress.

Deadline	Topic	What	Who	Stakeholders	Explanation
SEPA credit transfer and SEPA direct debit					
Q1 2011	SDD: charging principles	Guidance to the payment industry	European Commission	Banks, other payment service providers, payment service users (creditors, debtors)	Regulation (EC) No 924/2009 is providing a temporary charging model for direct debits until 1 November 2012. The Commission (taking arguments provided by the banking industry into consideration) should provide guidance to the payment industry on the long-term charging principles for SDD.
Q1 2011	SDD: mandate migration	Ensuring the legal continuity of mandates	EU Member States, where no solution has been found so far	Banks, other payment service providers, payment service users, public authorities	Ensuring the legal continuity of mandates is key to the success of SDD. Those communities which have not yet agreed on a solution, which allows for a legal continuity without the need to re-sign the mandates, are required to find such a solution (be it by law or by agreement) in order to foster migration.
End-2011	SCT and SDD: ISO 20022 XML validation sub-set schemata and sample data files	Publication of mandatory validation sub-set schemata and sample data files	EPC	Banks, other payment service providers, payment service users, IT providers	The EPC has published optional C2B/B2C/interbank implementation guidelines. The implementation of these guidelines leaves room for interpretation and results in diverse outcomes. Supplementing the implementation guidelines by binding validation sub-set schemata and sample data files based on ISO 20022 XML would limit this fragmentation.
End-2011	SCT and SDD: management of Additional Optional Services (AOS)	Taking an active role in the management of AOS	EPC	National communities, banks, other payment service providers, payment service users	The publication of the AOS does not take place in a standardised way and there is no central database for AOS. The aim should be to merge similar AOS and to provide a single point of access to all AOS which are offered/under development. Therefore the EPC as the scheme owner of SCT and SDD shall take on a more active role in this area.
SEPA for Cards					
Q2 2011	Framework for card transaction processing	Framework (documentation) finalised	EPC and/or card processors	Banks, other payment service providers, processors, infrastructures, card schemes	The framework for the processing of card transactions aims to achieve a fairer, more competitive card processing market. The framework shall define certain "business rules" for the authorisation phase and the clearing phase of card transaction processing. The business rules defined in the framework would be implemented by the relevant stakeholders in the next phase.

Deadline	Topic	What	Who	Stakeholders	Explanation
Q2 2011	Charging principles for cards	Guidance to the payment industry	European Commission	Card schemes, issuers, acquirers and card holders	The current lack of clarity regarding the charging principles for cards is hampering the establishment of new card schemes. The European Commission could provide further guidance to the payment industry on the charging principles for cards.
End-2011	"Implementation specifications" for SEPA cards and terminals	Finalisation of the "implementation specifications" for cards and terminals	Standardisation initiatives	Card issuers and acquirers, processors, card and terminal manufacturers	Based on the requirements defined in the EPC Cards Standardisation Volume: Book of Requirements[1] ("Volume"), the standardisation initiatives, e.g. Berlin Group, CIR and EPAS, shall develop the "implementation specifications" for cards and terminals. In the next phase, following the subsequent implementation by the relevant stakeholders, only SEPA-compliant cards and terminals will be issued and deployed.
End-2011	Compliance of "Implementation specifications" for SEPA cards and terminals with the "Volume"	Design of a process to identify cards standardisation initiatives and to assess the compliance of their specifications with the "Volume"	EPC	Standardisation initiatives, card issuers, acquirers, processors, card and terminal manufacturers	To create transparency and establish trust in newly developed implementation specifications, a process needs to be designed based on which standardisation initiatives for all cards are identified and compliance of their implementation specifications with the "Volume" is assessed. The process will become effective after the standardisation initiatives have finished their work.
Start-2012	Magnetic stripes on cards	All cards by default issued as chip-only cards	Banks, other payment service providers	National SEPA fora, card schemes	Migration to EMV will only have its maximum positive effect on the security of card payments if the magnetic stripe is removed or does not contain data enabling magnetic stripe transactions anymore.
End-2012	Online "card-not-present" transactions	Implementation of and migration to state-of-the-art authentication	Payment service providers	Consumers	For improving information security and preventing payment fraud, market participants should introduce state-of-the-art authentication for online "card-not-present" transactions.
End-2013	SEPA-wide licensing	Card issuing or acquiring licensees free to be active in the entire SEPA	Card schemes, acquirers, issuers	Retailers	An open and competitive cards market requires that issuers and acquirers are free to do business across SEPA. Restrictions in scheme rules and license contracts based on geographical considerations should be removed.
Payment innovation					
End-2011	Proof of concept exercise of Online Banking e-Payments (OBeP) interoperability	Proof of concept exercise finalised	Existing OBeP schemes	OBeP schemes, merchants, consumers, EPC	Existing OBeP schemes will make a proof of concept exercise of interoperability between existing schemes, taking the EPC work for an e-payments framework as a starting point.
Q2 2012	European online payments	Online payments solution offered to European consumers within the whole SEPA	Payment service providers and existing OBeP schemes	Merchants, consumers, EPC	Interoperability between existing OBeP schemes should be operational. In addition, those communities without an OBeP scheme should prepare and roll out a solution, too, either by implementing/joining an existing initiative or setting up an interoperable solution on their own.

1) The EPC Cards Standardisation Volume: Book of Requirements is available at http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=331

Deadline	Topic	What	Who	Stakeholders	Explanation
Q2 2012	European mobile payments	Finalisation of the framework for mobile payments	EPC	Banks, other payment service providers, mobile network operators, handset manufacturers, consumers, retailers	The framework for mobile payments will create the preconditions for the development of interoperable European m-payment solutions.
SEPA Migration					
End-2010	Migration towards the EMV specifications	Finalisation of the migration towards the EMV specifications for cards and terminals	Card schemes; card issuers; card acquirers; payment service providers	Card holders; merchants; card and terminal manufacturers	The use of EMV specifications for cards and terminals together with the use of PIN are considered at present the safest means of making cards transactions and have been adopted as part of the SEPA compliance criteria of the Eurosystem and part of the EPC SEPA Cards Framework. In order to be SEPA- respectively SCF-compliant, card schemes must apply the EMV specifications and must require the use of PIN codes. Migration to EMV by the end of 2010 is a self-set deadline by the payments industry (SCF), supported by the Eurosystem.
Q2 2011	SEPA migration end date	Adoption of an EU regulation to support migration to SCT and SDD	Council of the European Union and the European Parliament	Payment service providers, infrastructures, payment service users	A legally binding end date for migration towards SCT and SDD is necessary to reap the full benefits of SEPA. The adoption of an EU regulation will provide the clarity asked for by the vast majority of stakeholders.
End-2011 (SCT) and end-2012 (SDD) respectively – i.e. one year before the completion of the migration to SCT and SDD	Marginal “niche products” (not to be migrated to SCT or SDD)	Definition of SCT and SDD “niche products”	NCBs	National banking communities, national SEPA fora, ECB, European Commission	In many EU Member States, there are certain legacy payment instruments which could be considered credit transfers or direct debits but which have very specific functionalities. The transaction volume of such products is usually marginal. At the national level it should be possible to maintain such “niche products” for a certain period even after the envisaged deadline for the migration to SCT (i.e. end-2012) and SDD (i.e. end-2013) if certain criteria are fulfilled.[2]
November 2012	Migration towards SCT	Migration towards SCT preferably completed; no national legacy alternatives anymore (except marginal “niche” CT products)	Banks, other payment service providers, infrastructures, payment service users	NCBs, ECB, public authorities	Full migration to SCT is necessary to reap the full benefits of SEPA. An end date of November 2012 implies an almost five-year migration period as SCT was launched January 2008.
November 2013	Migration towards SDD	Migration towards SDD preferably completed; no national legacy alternatives anymore (except marginal “niche” DD products)	Banks, other payment service providers, infrastructures, payment service users	NCBs, ECB, public authorities	Full migration to SDD is necessary to reap the full benefits of SEPA. An end date of November 2013 implies an almost four-year migration period as SDD was launched November 2009.

2) A market share, based on ECB statistics, of less than 10% of the total number of credit transfer or direct debit transactions in that Member State.

Deadline	Topic	What	Who	Stakeholders	Explanation
SEPA Governance					
Q4 2010	Involvement of end users in the SEPA project at the national level	Representatives of all end users categories to become members of the national SEPA fora	National SEPA fora and end user groups	Payment service providers and national and European end users associations	The establishment of the SEPA Council is not enough to guarantee a proper involvement of end users. End users have to be involved also at the national level: representatives of all end users categories (e.g. consumers, merchants, SMEs, corporates and national authorities) need to participate in national SEPA fora, where this is not already the case.