



EUROPEAN CENTRAL BANK

EUROSYSTEM

# THE SINGLE EURO PAYMENTS AREA (SEPA)

◀ AN INTEGRATED RETAIL  
PAYMENTS MARKET

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Mario Draghi

## FOREWORD

This brochure is an introduction to SEPA, the Single Euro Payments Area, for interested non-experts. It provides an overview of the essential changes that the SEPA project is bringing about – changes with a far-reaching impact on everyday payments in the euro area and beyond.

Since the introduction of the euro banknotes and coins, European citizens and businesses have been able to make cash payments throughout the euro area using a single currency. It is time that they are also able to make cashless payments throughout the euro area using a single payment account with the same basic conditions, regardless of their location. For this purpose, all euro area retail payment markets are being transformed into one “domestic” market – the Single Euro Payments Area. Within SEPA, there is no difference between national and cross-border payments in euro. This means changes not only for the payments industry, but also for users’ habits and practices in all euro area countries.

The advantages of SEPA are considerable for the euro area. SEPA facilitates safe and efficient payments in euro throughout Europe. Furthermore, and in particular, the SEPA project is an important element for the integration of financial services in Europe. The Eurosystem, under its mandate, is committed to supporting the SEPA project to promote the smooth operation of payment systems, both as a contribution to the efficiency of the euro area economy and as a way to support continued trust in the euro.

A handwritten signature in black ink that reads "Mario Draghi". The signature is fluid and cursive.

Mario Draghi  
President of the European Central Bank



# INTRODUCTION

Since the establishment of the European Economic Community in 1958, the movement towards a more integrated European financial market has been marked by several events. The most visible was the launch of the euro in 1999, and the cash changeover in the euro area countries that followed in 2002. Less visible, but also of great importance, was the establishment of the central banks' large-value payment system, known as TARGET, in 1999, and its replacement, TARGET2, in 2008. TARGET2 provides the backbone of financial system transactions in euro, and is the tool used to implement the Eurosystem's single monetary policy. The SEPA project represents a further major step towards European financial integration, as it harmonises the way retail payments in euro are made. The goal is to make payments in euro and across Europe as fast, safe, and efficient as national payments are today. SEPA enables customers to make cashless euro payments in 33 European countries, for example by credit transfer, direct debit or debit card.

The SEPA project started in 2002, when the banking industry created the European Payments Council (EPC) in response to the European regulation on cross-border payments in euro (Regulation No 2560/2001). This regulation established that payment charges for cross-border euro payments within the EU should be the same as those applied to corresponding domestic euro payments, for instance credit transfers and card payments. The impact of this regulation on the banks' cost structure and returns from payment services, together with clear policy expectations expressed by the Eurosystem and the European Commission, were strong incentives for the payments industry to work jointly towards a single market for retail payments. Under guidance and observation by the Eurosystem and the European Commission, the EPC defined new rules and procedures for euro payments. These rules have been adopted not only by the stakeholders in the euro area, but also by those in the other countries of the EU, as well as by market participants in Iceland, Liechtenstein, Monaco, Norway and Switzerland who offer payment services in euro.

In March 2012 the European legislator adopted Regulation No 260/2012, which is also commonly referred to as the "SEPA migration end-date regulation". This regulation lays down rules for the initiation and processing of credit transfer and direct debit transactions denominated in euro within the European Union. The regulation defines a clear timeline by when these rules need to be implemented in all Member States. For the euro area, the final deadline is **1 February 2014**. The migration deadline for euro-denominated payments in non-euro area countries is **31 October 2016**. As of these dates, existing national retail credit transfers and direct debit schemes for payments in euro will have to be phased out and replaced by SEPA alternatives.

This brochure presents an overview of the SEPA project. The Eurosystem is responsible for the smooth operation of payment systems in the euro area, and therefore places particular emphasis on the realisation of SEPA in the euro area. This brochure therefore focuses mainly on the euro area.

# 1. CREATING SEPA

## Overview of SEPA

### SEPA is:

- the vision of an area in which consumers, companies and other economic actors are able to make and receive payments in euro, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.

### The aim of the SEPA initiative is:

- to advance European integration with one euro retail payments market. A single market for all euro payments will drive competition and innovation and thus bring better services for end users.

### SEPA consists of:

- one currency: the euro is the monetary basis for SEPA. The single currency is the political driver for the establishment of a common market for payments;
- one set of euro payment instruments – credit transfers, direct debits and payment card;
- efficient infrastructures for the processing of euro payments;
- common technical standards;
- common business practices;
- a harmonised legal basis;
- the continuous development of new customer-oriented services, for instance e payments or m-payments.

## Stakeholders

### SEPA requires interaction between all of the following constituencies:

- **The payments industry:** in 2002 the European Payments Council (EPC) was established as the coordination and decision-making body of the European banking industry on issues related to payments. It is a non-profit organisation. Today the EPC members comprise European banks, banking organisations and also payment institutions. Its main purpose is to support and promote the creation and development of the Single Euro Payments Area. The EPC has established rules for the SEPA credit transfer and direct debit schemes and a framework for cards. It does not develop payment products for end users. This is carried out by European payment service providers.
- **The European clearing and settlement industry** provides the infrastructure for processing payment transactions between SEPA scheme participants. The European Automated Clearing House Association (EACHA) developed a technical interoperability framework for infrastructures. The STEP2 service by EBA Clearing provides reach using a different approach.
- **Euro area companies** (corporates, merchants, small and medium-sized enterprises) and **public administrations** are important users of the SEPA services, since they generate a large share of the



daily payment volumes in euro. After the SEPA migration end date in February 2014, all incoming and outgoing credit transfer and direct debit payment messages in euro will follow the same format.

- **Consumers** are important users of SEPA payment instruments because their individual decisions on which payment instrument to pick for a given transaction generate the overall demand for the alternative instruments. With SEPA, consumers can rely on one bank account and one payment card to make euro payments across all EU countries – with these payments being made as quickly and as safely and at no higher cost than at national level for corresponding payments. Each end user party to a payment, for instance the consumer paying a bill and the biller receiving the payment, is charged individually and separately for this payment service in a transparent manner. The basis and level of charges applied to end users are entirely a matter for individual payment service providers.
- A number of **public authorities** have been engaged in the SEPA project from the outset, as both regulators and also users. The Eurosystem, comprising the European Central Bank (ECB) and the euro area national central banks, has supported the SEPA project both at European and national levels. It defines and monitors the SEPA objectives, for example the progress being made in terms of migration to the new payment instruments. The Eurosystem fosters the use of SEPA payment instruments and encourages the industry to further develop its SEPA offerings, making them more and more attractive for users. With this in mind, it facilitates a European dialogue between banks, other payment service providers and end users of payment services. The European Commission supports SEPA as an important element of a single and competitive market. The European Commission, the European Parliament and the Council have provided the necessary legal basis for the European payments market and defined end dates for the migration to SEPA credit transfers and SEPA direct debits. The national ministries of finance support SEPA through the ECOFIN Council and are in most countries strongly involved in facilitating SEPA preparations and migration at the national level.

## Why SEPA?

Without SEPA, the euro area economy would be unable to take full advantage of all the benefits of Economic and Monetary Union. Customers used to face difficulties when making euro retail payments to other euro area countries, as these payments often required different formats and data elements that were usually more expensive and time-consuming.

Despite the introduction of the euro in 1999 and the development of TARGET, the common large-value payment system for euro-denominated, low-value electronic payments (i.e. retail payments) continued to be processed differently in each country throughout the euro area. The number and variety of payment instruments, standards and processing infrastructures for retail payments had not significantly changed since the introduction of the euro, and the same applied to local payment habits. In such an environment, companies with a substantial number of cross-border payments therefore had to maintain bank accounts in many of the countries in which they did business. In

addition, national legislation further complicated cross-border business, as stakeholders were subject to different rules and requirements depending on the country with which they did business.

This fragmentation not only affected cross-border payments, but also national euro payments, as it hampered innovation and competition at the euro area level. The creation of a single market provides the opportunity for innovation to advance regardless of national borders.

The goal of SEPA is thus to create an integrated, competitive and innovative retail payments market for all non cash euro payments which, in time, will be conducted more and more electronically. As a result, SEPA will in the end benefit all users of payment services.

## What has been achieved so far?

In the move towards SEPA, the main focus of the payments industry has been the development of SEPA payment instruments. First, the industry developed new payment schemes (rules, practices and standards) for credit transfers and direct debits, and formulated a framework for card payments. Second, it identified principles for the underlying processing infrastructures, and addressed standardisation issues. These steps helped to facilitate the implementation of the new common payment instruments in the euro area.

### Payment instruments

The new payment instruments offered by the financial industry to its customers will be based on a new set of rules, practices and standards for euro payments.

SEPA | 7

The EPC has designed rulebooks for new payment schemes and a common framework in which payment service providers can develop their SEPA payment products:

- SEPA credit transfers;
- SEPA direct debits;
- SEPA card payments (common framework).

With regard to credit transfers and direct debits, **common schemes** were set up that allow customers to send and receive euro payments to/from any beneficiary in the SEPA countries. The schemes are defined in rulebooks covering the rules, practices and standards applicable to such euro payments. For card payments, an "adaptation" strategy has been chosen to allow existing schemes and their operator(s) to adjust to a new set of business and technical standards and processes. The EPC has defined a **framework** that explains how card schemes (as well as card issuers, acquirers and operators) need to adapt their current operations to comply with the SEPA principles for euro card payments. A core feature of the SEPA payment instruments is a clear separation of schemes from processors. This allows any infrastructure to process SEPA payments.



Payment service providers are responsible for the quality of their SEPA products, and are free to offer their customers innovative products as long as their design is in line with the legal provisions, schemes and frameworks.

### **Infrastructures**

The infrastructures handle the clearing and settlement of euro payments. Traditionally, infrastructure providers have been responsible for the management of the rules, practices and standards related to payments made within a country, and they also used to typically offer their processing services to payment service providers active in the same country. In the new SEPA environment, the rules and standards are defined in the SEPA schemes, which are separated from the processing infrastructures. This separation will allow infrastructure providers to be competitive and offer their processing services to any SEPA scheme participant.

To enable reach for SEPA payments beyond their own members, a number of infrastructures have established direct links based on the technical interoperability framework set up by the EACHA. STEP2 provides a different model by establishing indirect links, i.e. reach through its own participants and by connecting with other infrastructures as technical facilitators on behalf of STEP2's direct participants acting as intermediaries.

### **SEPA services for end users and innovation**

Based on the SEPA schemes, payment service providers can, either individually or in cooperation with others, design and offer individual SEPA products to their customers. It is expected that payment service providers in SEPA make increasing use of advanced information and communication technology when offering payment-related services. Innovative services are increasingly provided in addition to SEPA core and basic services and focus on specific needs in the end users' domain. Such individual services can bring the customer benefits, for instance in terms of easier access to payment services, better functionality or a more attractive user experience. Since the idea of SEPA is to establish a single market for euro payments, it follows that innovation should not lead to new fragmentation. New solutions should therefore be rolled out not only in the national context, but throughout Europe, and should offer the same kind of user experience and service levels. Below are short descriptions of three of the most relevant types of retail payment innovation for SEPA (also referred to as eSEPA):

- **e-payments** (internet payments) are payments for which the payment data and the payment instruction are transmitted and confirmed via the internet between the customer and his/her payment service provider in the course of an online purchase of goods or services from a web merchant. This definition excludes payments that are initiated via online banking which are not integrated in the process of online shopping;
- **mobile payments** (m-payments) are payments for which the payment instruction and other payment data are transmitted and/or confirmed via a payer's mobile device, irrespective of the payment instrument or service. Excluded are internet payments, i.e. where the payer has used his/her mobile device only to open a web browser to access the internet;



- **e-invoicing** (electronic invoicing or also electronic bill presentment and payment – EBPP) can be defined as the sending or making available of invoices and their subsequent processing and storage, wholly by electronic means. Electronic invoicing offers substantial benefits over paper invoicing, such as faster payments, fewer errors, reduced printing and postage costs and, most importantly, full process automation and integration from order to payment between trading parties.

## Overall timeline and key dates in the migration phase

The EPC had planned its timeline for the SEPA project around three main phases: a design phase, an implementation phase and a migration phase.

The first phase, the **design phase**, began in 2004 and involved the design of the new credit transfer and direct debit schemes and the frameworks for cards and clearing and settlement infrastructures. The necessary standards and specification of security requirements were also developed.

The second phase, the **implementation** phase, started in 2006 and continued until end 2007. This phase of the project concentrated on preparation for the rollout of the new SEPA instruments, standards and infrastructures. Testing exercises were also carried out in this phase. National implementation and migration bodies that had been established in each euro area country assisted, for instance by monitoring the different stakeholders' preparations for SEPA rollout. The stakeholders were very diverse, consisting of a number of parties such as banks, infrastructure operators, public administrations, corporates and other end users.

The final phase, namely the **migration period**, began in 2008. In this phase, national payment schemes coexist temporarily with the new SEPA schemes. Customers are offered both "old" national and new SEPA instruments, and the clearing and settlement infrastructures are able to process payments made using both types of instruments.

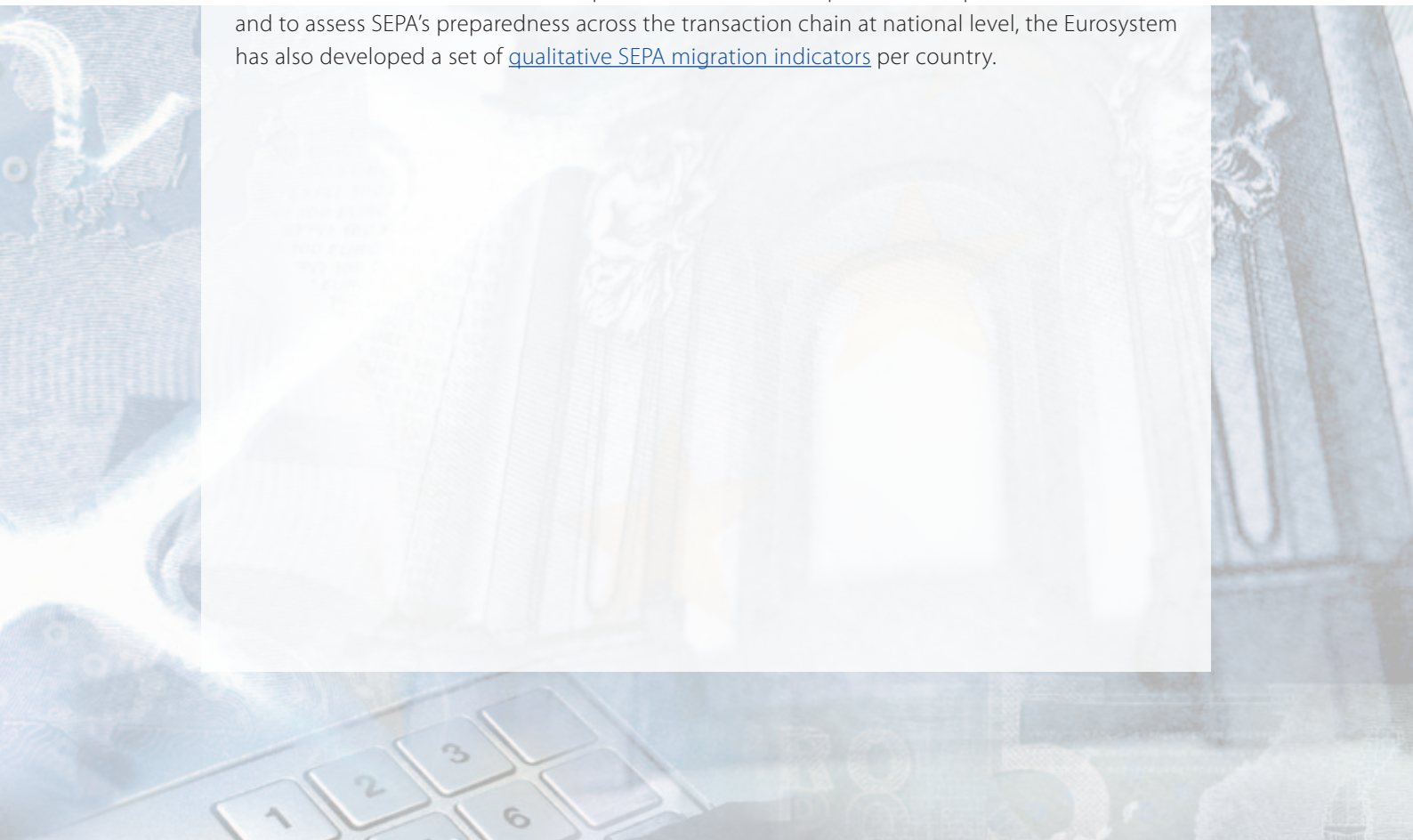
The migration period for credit transfers and direct debits will end on dates laid down by the European legislators in Regulation No 260/2012. For the euro area, the **SEPA migration end date** is 1 February 2014, whereas the deadline for euro-denominated payments in non-euro area countries will be 31 October 2016. As of these dates, existing national euro credit transfer and direct debit schemes will have to be phased out and replaced by SEPA alternatives. Each country must ensure that the migration to the new SEPA instruments is conducted in accordance with the regulation. However, national timelines may be longer or shorter than at the general European level, as some requirements and migration deadlines may vary from country to country during a transitional period. For instance, the official migration deadlines in some euro area countries are even earlier than the official end date; hence, the migration process for those countries may already be completed. In other cases, national competent authorities can decide to extend the migration period, for instance in the case of so-called niche products with only a low market share. Any such transitional period will end in 2016 or 2017 for all requirements of Regulation No 260/2012.

## Key dates for SEPA migration

<b>31 March 2012</b>	Regulation No 260/2012 entered into force; pan-European reachability; phasing-out of €50,000 ceiling for equal charges to apply.
<b>1 February 2014</b>	Deadline for migration to SEPA credit transfer and SEPA direct debit within the euro area. No Business Identifier Code (BIC) to be required for national payments, unless Member State have decided to postpone to 1 February 2016.
<b>1 February 2016</b>	No BIC to be required for cross-border payments; niche products migration complete.
<b>31 October 2016</b>	Deadline for non-euro area countries to migrate euro-denominated payments to SEPA credit transfer and SEPA direct debit.

### SEPA migration tracking by the Eurosystem

To monitor the usage of the new SEPA payment instruments the Eurosystem compiles [quantitative SEPA migration indicators](#). These indicators will be compiled during the period of SEPA migration when both national legacy non-SEPA instruments as well as the new SEPA instruments are offered and used in parallel. In order to complement the quantitative indicators and to assess SEPA's preparedness across the transaction chain at national level, the Eurosystem has also developed a set of [qualitative SEPA migration indicators](#) per country.





## 2. FEATURES OF SEPA

Creating one retail payment market in the euro area is an ongoing process. However, with a common migration timeline set for two SEPA payment instruments a significant milestone will be reached in early 2014. A further step will be to develop and offer services to customers that enrich the SEPA payments and guarantee their user-friendliness. Enriching the SEPA payments with so-called value-added services shall stimulate a paperless payments market, with an end-to-end straight-through-processing (STP) of all payments.

### SEPA payment instruments

The SEPA project focuses on three payment instruments: credit transfers, direct debits and payment cards. The European Payments Council (EPC) has developed payment schemes for credit transfers and direct debits. These schemes are defined in rulebooks that establish the industry rules, practices and standards applicable to SEPA payment instruments.

A common feature of all three payment instruments is the need for a clear distinction between schemes (rules, practices and standards) and processing infrastructures.

In addition to the new payment instruments, SEPA also aims to harmonise the handling of cash. In this context, the term Single Euro Cash Area (SECA) is commonly used.

### SEPA credit transfers

#### What is a credit transfer?

A payment initiated by the payer. The payer sends a payment instruction to his/her payment service provider. The payer's payment service provider moves the funds to that of the payee. This can be carried out via several intermediaries.

In January 2008, the EPC launched the SEPA credit transfer scheme, which defines common rules and procedures for payment service providers throughout SEPA. Payment service providers wishing to join this scheme must comply with the rules and procedures defined by the EPC in the rulebooks for SEPA credit transfers.

Regulation No 260/2012 sets deadlines for replacing national credit transfers in euro with SEPA credit transfers. In accordance with this regulation, SEPA credit transfers must fulfil a set of requirements ([Annex](#)). For instance, since Regulation No 260/2012 came into effect on 31 March 2012, payers and payees have the right to choose their payment account location: payers cannot be restricted in choosing from which account in Europe they would like to make credit transfers in euro; neither can payees be forced to receive credit transfers in euro in an account held in a specific country.

## SEPA direct debits

### What is a direct debit?

A transfer from the payer's account initiated by the payee (the receiver) via his/her payment service provider. Direct debits are often used for recurring payments (such as utility bills). They require pre authorisation by (a "mandate" from) the payer. Direct debits are also used for one off payments, in which case the payer authorises an individual payment.

The EPC launched two SEPA direct debit schemes in November 2009, defining common rules and procedures for a core scheme (available for any user category) and for a business-to-business (B2B) direct debit scheme. The latter is largely based on the core scheme, but includes specific features for payments solely between businesses. In order to join these two schemes, payment service providers must comply with the rules and procedures defined by the EPC in the rulebooks for SEPA direct debits. SEPA direct debit schemes are based on the principles of a creditor mandate flow. Regulation No 260/2012 sets 1 February 2014 as the deadline for the replacement in the euro area of national direct debits in euro by SEPA direct debits. In Member States with other currencies, the deadline is 31 October 2016. In accordance with this regulation, SEPA direct debits must fulfil a given set of requirements ([Annex](#)).

For instance, payment service providers must ensure that payment accounts in euro that can be used for national direct debits are also reachable as debtor accounts for SEPA direct debits. This so-called reachability requirement was first set out in Regulation No 924/2009 for the core SEPA direct debit scheme. Later on, in March 2012, with Regulation No 260/2012 a reachability requirement for payment accounts in euro came into effect for SEPA credit transfers and for SEPA direct debits (debtor accounts of consumers in the core scheme). Reachability of accounts for the business-to-business SEPA direct debit scheme remains voluntary.

Furthermore, the free choice of location of payment accounts also applies to SEPA direct debits: payers cannot be restricted in choosing from which account in Europe they would like to make direct debits in euro; neither can payees be forced to receive direct debits in euro in an account held in a specific country.

Consumers may instruct their payment service provider on how to handle incoming collections, for example to only allow SEPA direct debit payments by specific billers (additional debtor protection measures for consumers).



## SEPA card payments

### What is a card payment?

Of the many types of payment cards available to cardholders, two main types can be identified:

- **debit cards** allow the cardholder to charge purchases and cash withdrawals directly and individually to an account;
- **credit cards** allow purchases and cash withdrawals up to a prearranged credit limit. The balance is settled in full by the end of a specific period, or in part, with the remaining balance taken as extended credit on which the cardholder is charged interest.

The EPC has developed a set of high-level principles that are referred to as the SEPA Cards Framework. Since 2009, a multi-stakeholder body, the Cards Stakeholders Group, has developed and maintained the SEPA Cards Standardisation Volume – Book of Requirements as a standard set of requirements to ensure a secure, interoperable and scalable card and terminal infrastructure across SEPA. The Cards Stakeholders Group plans the release of a mature and stable version of the Cards Standardisation Volume in late 2013, expecting readiness for market implementation in 2014.

### Expected features of SEPA card payments

- Cardholders can pay with one card throughout the euro area (potentially limited only by brand acceptance by merchants).
- Cardholders and merchants can make and receive card payments in a common and consistent manner throughout the euro area.
- Cards and terminals are based on EMV chip technology.
- Card payment processors can compete with one another and offer their services throughout the euro area.

## SEPA infrastructures

### What are clearing and settlement?

Clearing is the process of transmitting, reconciling and confirming payment orders, and establishing a final position for settlement (either based on individual transactions or bundles of transactions). Settlement is the transfer of funds between the payer and the payee (and between their respective payment service providers).

### Features of the SEPA clearing and settlement infrastructures

The Eurosystem's aim is for infrastructures active in SEPA to be able to process euro payments made with SEPA payment instruments to and from all SEPA scheme participants in the euro area. Reachability for all SEPA scheme participants can be guaranteed either through direct or indirect participants or through interoperability. Providers of infrastructures have to comply with the SEPA migration end-date regulation in this respect.

To provide the market with guidance, the Eurosystem has published reference criteria for the SEPA compliance of infrastructures, presenting the Eurosystem's long-term vision for (a) the processing of payments, (b) interoperability among infrastructures, (c) reachability and (d) choice for SEPA scheme participants.

## Standardisation

### What are standards?

Standards are rules that govern technology, behaviour and interactions. Technical standards are necessary to allow interaction and interoperability between IT systems and to foster automation of the payment process.

Common technical standards are needed for processing SEPA payments. They are necessary to allow interaction and interoperability between IT systems and to ensure an automated processing of euro-denominated transactions between payment service providers. This is referred to as "straight-through processing" (STP), which means that no manual intervention is needed.

### Standards for SEPA credit transfers and SEPA direct debits

Regulation No 260/2012 requires the use of certain common standards and technical requirements, such as the use of International Bank Account Numbers (IBANs), Business Identifier Codes (BICs)<sup>1</sup> for a provisional period and the financial services messaging standard ISO 20022 XML for all credit transfers and direct debits in euro in the EU. Furthermore, lists of mandatory data elements for interaction between the parties involved in SEPA credit transfers and SEPA direct debits respectively were defined by the Regulation.

### SEPA cards standardisation

In 2009, the card payments industry launched a card standardisation programme designed to remove any technical obstacles preventing a consistent customer experience throughout the SEPA cards market. The establishment of the EPC's Cards Stakeholders Group (CSG) represented a major step towards that goal. By combining the expertise of representatives from different sectors (banks/payment institutions, card payment schemes, processors, vendors and retailers), the CSG ensures the involvement of the main stakeholder groups of the cards market in the related standardisation work. The CSG is responsible for the maintenance and development of the SEPA Cards Standardisation Volume – Book of Requirements, in which functional and security requirements for the European cards market are being defined.

As regards certification (i.e. the process required to ensure that terminals and cards comply with a set of standards, requirements and specifications), the Eurosystem believes that a pan-European SEPA certification framework will contribute to greater security and efficiency in the cards market and bring

<sup>1</sup> Payment service users may still be asked to provide a Business Identifier Code (BIC) until 1 February 2014 for national payments and until 1 February 2016 for cross-border payments. Member States may defer the requirement to phase out the BIC for national payment transactions until 1 February 2016.



notable benefits both for manufacturers of cards and terminals and for merchants. For this reason, the Eurosystem has set up a forum with market participants, the Forum on the SEPA Certification Framework. This Forum serves as a platform for the informal exchange of views on the development of a harmonised framework for the certification of cards and terminals.

## Legal framework

SEPA payments and related services are subject to a harmonised legal framework in the EU, irrespective of the countries involved in the transaction.

### **The Payment Services Directive: the legal basis for offering payment services in the EU**

The [Payment Services Directive<sup>2</sup>](#) (PSD) provides a harmonised legal framework for payments in the EU. The PSD is not restricted to euro transactions, but applies to all payment services in all EU currencies within the European Union, at both the cross-border and national levels. The PSD was adopted by the European Parliament and the Council in 2007. The period granted to EU Member States to transpose the PSD into national law ended on 1 November 2009.

### **Main areas of the Payment Services Directive**

- **The right to provide payment services to the public:** the PSD limits the provision of payment services to listed categories of payment service providers and introduces a new category of payment service providers under lighter supervision: payment institutions. The aim is to create a level playing field with increased competition, which will help to foster innovation.
- **Transparency and information requirements:** the PSD provides a clear and concise set of harmonised information requirements. These must be fulfilled by all payment service providers, regardless of whether they offer SEPA products or national payment products. This will improve transparency for customers.
- **Rights and obligations of users and providers of payment services:** the PSD provides clarity and certainty with regard to the core rights and obligations of both users and providers of payment services.
- **Time limits:** the PSD obliges payment service providers to process payments within certain time limits. The execution time “D+1” has applied since 1 January 2012.

<sup>2</sup>Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

## D+1: payments executed from one business day to the next

After the “point in time of receipt” of a payment order by the payer’s payment service provider, the amount of the transaction must be credited to the payee’s payment account by the end of the next business day at the latest. This period may be extended by a further business day for paper-initiated payments. The amount of the payment transaction must be at the payee’s disposal immediately after that amount is credited to the payee’s payment service provider’s account.

The “point in time of receipt” is the time when the payment order (transmitted directly by the payer or indirectly by or through a payee) is received by the payer’s payment service provider. If the point in time of receipt is not on a business day for the payer’s payment service provider, the payment order is deemed to have been received on the following business day. The payment service provider may establish a cut-off time near the end of a business day beyond which any payment order received is deemed to have been received on the following business day.

### Key SEPA regulations: removing national differences and phasing out national payment instruments

**Regulation No 924/2009<sup>3</sup>** eliminates the differences in charges for cross-border and national payments in euro. It applies to payments in euro, in all EU Member States. The basic principle is that the charges for payment transactions in euro offered by a payment service provider (e.g. a bank) have to be the same irrespective of whether the payment is for a national or similar cross-border transaction.

The regulation applies to all electronically processed payments, including credit transfers, direct debits, cash withdrawals at cash dispensers (ATMs), payments using debit and credit cards, and money remittances.

All non-euro area Member States have the possibility of applying this regulation to their national currency (currently, Sweden and Romania opted to do so).

**Regulation No 260/2012<sup>4</sup>** sets 1 February 2014 as the deadline in the euro area for replacing national credit transfers and direct debits with their SEPA equivalents. In Member States with other currencies, the deadline is 31 October 2016 for transactions in euro. The regulation makes the use of certain common standards and technical requirements mandatory, such as the use of International Bank Account Numbers (IBANs) and the financial services messaging standard ISO 20022 XML for all credit transfers and direct debits in euro in the EU.

<sup>3</sup> 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.

<sup>4</sup> Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.



Regulation No 260/2012 ensures that the principle of equal charges for cross-border and national payments in euro, as stated in Regulation 924/2009, applies to all transactions, irrespective of the payment amount. It also defines deadlines by which multilateral interchange fees (MIFs) for direct debit transactions between payment service providers have to be phased out (1 February 2017 for national direct debits and 1 November 2012 for cross-border direct debits). The key requirements of Regulation No 260/2012 are listed in the [Annex](#).

### **Outlook**

In July 2013 the European Commission published a proposal for a revised Payment Services Directive (PSD2). The proposal extends the Directive to cover also third-party providers of payment services, such as payment initiation services offered in the context of e-commerce. Information requirements have also been extended to cover transactions where only one of the payment service providers is located within the EU, and in all currencies. Further proposed changes aim to further strengthen consumer protection in the context of payments.

In addition to the proposal for a revised [Payment Services Directive](#), the European Commission published in July 2013 a proposal for a regulation on interchange fees for card-based payment transactions. The proposal applies to card transactions where both payment service providers are established within the EU and introduces a cap on interchange fees, as well as the elimination of a number of business rules which currently restrict pan-European issuing, acquiring and processing of cards and card transactions.



## 3. IMPACT OF SEPA ON STAKEHOLDERS

In SEPA, all euro payments will be treated as domestic payments, and the current differentiation between national and cross-border payments will disappear. The national practices of the payments industry need to be changed, which also means changes for companies, merchants, consumers, public administrations, payment service providers and infrastructures.

### Why fast and complete migration to SEPA is important

Two SEPA instruments were already introduced in 2008 and 2009. Since then, the handling of dual processes for national instruments and SEPA instruments has been expensive for the payments industry, and also for its customers. As long as the lengthy and costly migration process towards the new SEPA instruments has not been completed, the benefits of SEPA cannot be reaped in full. A clear timeline for completing the transition phase was needed – and it was set in March 2012 with the publication of Regulation No 260/2012. As a result, the official migration end-date is **1 February 2014** for the euro area.

### The impact on consumers

#### Benefits

##### A single payment account

A growing number of people in Europe live outside their home country, or make regular payments to beneficiaries located abroad. Before SEPA, this implied having an account in each country or having to face the difficulties that a cross-border transaction entailed. In the case of direct debits, it was not even possible to use this instrument across countries.

Thanks to SEPA, consumers will no longer need one account at home and another abroad. In addition, electronic payments in euro to any destination in the Single European Payments Area will finally be as easy as national payments are today. This holds true of both credit transfers and direct debits. Examples include:

- paying rent for children studying abroad;
- paying for a holiday home; and
- paying for services provided by European companies (such as telephone services, insurance and utilities).

##### A single payment card

In SEPA, payment cards will be widely accepted for all euro payments. This will also reduce the need to carry cash, for instance when travelling. New standards are helping to increase customer safety and security.

##### Faster and simpler payments

The [Payment Services Directive](#) obliges payment service providers to process payments within certain time limits (one business day for electronic payment orders, two business days for paper-based



payment orders). A long-term goal of SEPA is to foster the establishment of a paperless payments area with end-to-end STP for all payments. Payments can then be combined with innovative services that make the process of paying even simpler and more convenient. These services already exist in some countries, but they do not necessarily work across borders. SEPA is expected to make this possible. In short, with SEPA, consumers can manage their euro payments in faster and simpler ways, across Europe.

- Key elements of Regulation No 260/2012 with an impact on consumers: see [Annex](#)

## The impact on merchants

### Benefits

#### Harmonisation

Payment cards are a very popular way of paying retailers. They are increasingly replacing cheques and cash. To accept card payments in a shop, merchants need to have an agreement with an acquiring entity. The acquirer processes card payments on behalf of the merchant: it handles the information on the payment and the cardholder, and forwards it to the cardholder's payment service provider, usually via a clearing infrastructure. SEPA will bring harmonisation, and thus increase competition among the providers of card payment services. This should mean wider choice, lower costs and better service.

#### More choice of acquirers

With SEPA, acquirers will be able to process all SEPA-compliant card payments – also across national borders. Therefore, merchants will be able to choose any acquirer in SEPA. This will increase competition among acquirers and bring down costs.

#### Lower cost

Point-of-sale terminals will become increasingly standardised with SEPA. As a result, their production and certification costs will diminish and competition among providers will increase. All this should bring fees down for merchants. In addition, merchants will be able to accept a wider range of cards from a single terminal. The increased competition among card schemes should also drive down the cost for merchants.

#### Easier remote business

Merchants with a remote customer base often do business via e-commerce, mail or telephone orders. These channels are used for offers and orders, but also for submitting invoices, and sometimes even for directly initiating payments. Merchants benefit from the harmonised cards market, but can also use SEPA credit transfers and SEPA direct debits as payment options. This may be particularly beneficial for them if a variety of eSEPA services also evolves, tailored to their specific distribution channels.

### **Card fraud prevention**

Improvements in the security of cards and the underlying payment infrastructure are crucial to reduce fraud at automated teller machines and point-of-sale terminals. The most important enhancement in past years was the wider adoption of EMV, a chip-based standard. This offers stronger security features than conventional magnetic stripes, both for the physical card (since, unlike the stripes, the chip cannot be duplicated easily) and for the technological infrastructure behind the transaction. The adoption of these safety features is recommended by the Eurosystem and forms part of SEPA migration. For card payments on internet transactions, other improvements are needed to reduce fraud. Online merchants play a pivotal role in this field.

### **The impact on companies**

For companies, the switch to common standards for bank account numbers and, particularly, the financial services messaging standard ISO 20022 XML has a substantial impact on accounting and software systems. Companies will have to make the necessary adjustments in good time in order to be able to use and benefit from the SEPA payment instruments.

### **Benefits**

#### **Saving time and costs**

Companies that receive or send payments in various European countries often use special and complex software to process and execute their payments. This type of payment software is typically very costly to develop or purchase. By creating common technical standards for SEPA, software developers are able to provide much more efficient and less costly payment solutions to companies. Hence, even smaller companies are able to make use of commoditised and cheaper off-the-shelf software solutions to execute their payments throughout Europe.

Using the SEPA payment instruments, companies will be able to effect all euro-denominated payments centrally, from a single account. After 1 February 2014, the handling of payments in euro will be easier, as all incoming and outgoing payments will take the same format. This will enable companies to consolidate their payments and liquidity management in one location. The Payment Services Directive obliges payment service providers to process payments within certain time limits (one business day for electronic payment orders). For Europe-wide business, SEPA will save money and time.

#### **Electronic services**

SEPA payments will be combined with innovative services, such as e invoicing or e reconciliation. They will help companies to further optimise the handling of payments. Today, these services are often offered only nationally, as different formats and rules make cross-border use difficult. Standardised SEPA schemes will make it easier to overcome these obstacles.

- Key elements of SEPA migration end-date regulation (Regulation No 260/2012) and impact on companies: see the [Annex](#)



## The impact on payment service providers

In SEPA, banks and other payment service providers have had to harmonise the way euro retail payments are initiated and processed. This has entailed substantial costs, but benefits will materialise in the medium to long term.

### Benefits

Harmonisation throughout SEPA means that payment service providers will be able to offer their services more easily to customers, regardless of their location. In addition, payment service providers will be able to expand their business and meet their customers' needs by offering innovative services, such as e payments and m payments as well as e invoicing, in addition to core SEPA products.

### Increased market efficiency

The full implementation of SEPA will align the conditions under which payments are made.

The results will be:

- a single set of rules;
- equal and open access to the European market;
- reachability;
- transparency;
- interoperability.

This will encourage competition and enable payment service providers to negotiate better conditions with their own service providers.

### Cost-efficient processing

Financial intermediaries must impose equal charges on comparable cross-border and domestic payments in euro within the EU (see Regulation No 924/2009). This principle of equal charges has been reinforced by Regulation No 260/2012, which has eliminated the €50,000 ceiling previously set for the requirement of equal charges. Cross-border payments are traditionally more expensive and complex to process. SEPA will overcome this imbalance by making cross-border payments in euro as simple, efficient and inexpensive as national payments.

### Specific effects of Regulation No 260/2012 on payment service providers

- **Coverage:** the Regulation covers credit transfers and direct debits where both payment service providers (or the sole payment service provider, if that of the payer is identical to that of the payee) are located in the EU. The regulation covers all credit transfer and direct debit transactions where an end-user is involved. It also lists transactions that are excluded from its scope, such as payment transactions carried out by payment service providers for their own account, card transactions and payment transactions made via mobile phone or any other means of telecommunication or digital or IT device.

- **Payment service providers shall carry out credit transfers and direct debits in accordance with specific technical requirements:** the regulation introduces several technical requirements and compulsory data elements to be considered by payment service providers when carrying out SEPA credit transfers and direct debits in the domain of both interbank and bank-customer transactions. For example, payment service providers must use the message format ISO 20022 XML and moreover provide the data elements specified in the annex to the regulation, and the remittance data field must provide for 140 characters.
- **Payment account with Europe-wide reachability:** in order to encourage the successful take-up of SEPA-wide credit transfer and direct debit services, a reachability obligation has been established across the EU. Payment service providers should ensure that all payee payment accounts that are reachable for national credit transfers and all payer accounts that are reachable for national direct debits are also reachable via an EU-wide credit transfer or direct debit scheme.
- **Payment service providers shall take into account the additional debtor protection measures for direct debits:** Regulation No 260/2012 has acknowledged the need to take measures in order to strengthen customer confidence in the new instruments, especially for direct debits. Such measures should allow payers to instruct their payment service providers to limit direct debit collection to a certain amount, or a certain periodicity, and to define specific positive or negative lists of payees. In addition, when the collection of direct debit is based on a framework agreement with no refund right between the payer and his/her payment service provider, the payer's payment service provider will verify each direct debit transaction to check whether the amount of the submitted direct debit transaction is equal to the amount and periodicity agreed in the mandate before debiting the payer's payment account.
- **Direct debit mandate:** the payer under a direct debit in euro should give his/her consent both to the payee and to the payer's payment service provider (directly or indirectly via the payee). Mandates for recurring direct debits in legacy schemes will remain valid after 1 February 2014 and will be considered as representing the payer's consent to his/her payment service provider to execute direct debits.
- **Multilateral interchange fees (MIFs) are being eliminated for euro direct debits:** Regulation No 260/2012 limits the possibility to apply per-transaction multilateral interchange fees (MIFs) to direct debits in euro. MIFs are fees charged between payment service providers in some Member States when passing on individual direct debits. Such MIFs will be phased out by February 2017 for national payments, and have already been phased out for cross-border payments since November 2012. However, MIFs for transactions which are rejected, refused, returned or reversed because they cannot be properly executed and result in exception processing (so-called "R-transactions") will continue to be allowed, provided that they comply with certain conditions specified in the Regulation.
- **Payment service providers will apply the principle of equal charges, regardless of the payment's amount:** charges levied by a payment service provider on a customer in respect of cross-border payments in euro will be the same as the charges levied by that payment service provider for corresponding national payments of the same value and in the same currency.



With the adoption of the end-date regulation, the ceiling of €50,000 for the application of equal charges, as laid down in Regulation No 924/2009 on cross-border payments in the Community, was abolished.

## The impact on infrastructures

### Wider scope and consolidation

The effects of SEPA have been very visible at the infrastructure level, i.e. among entities that offer interbank funds transfer systems. Most retail payment infrastructures that were processing credit transfers in euro have been processing SEPA credit transfers since their launch in January 2008. Several infrastructures have moved from being purely domestic operators to pan-European service providers.

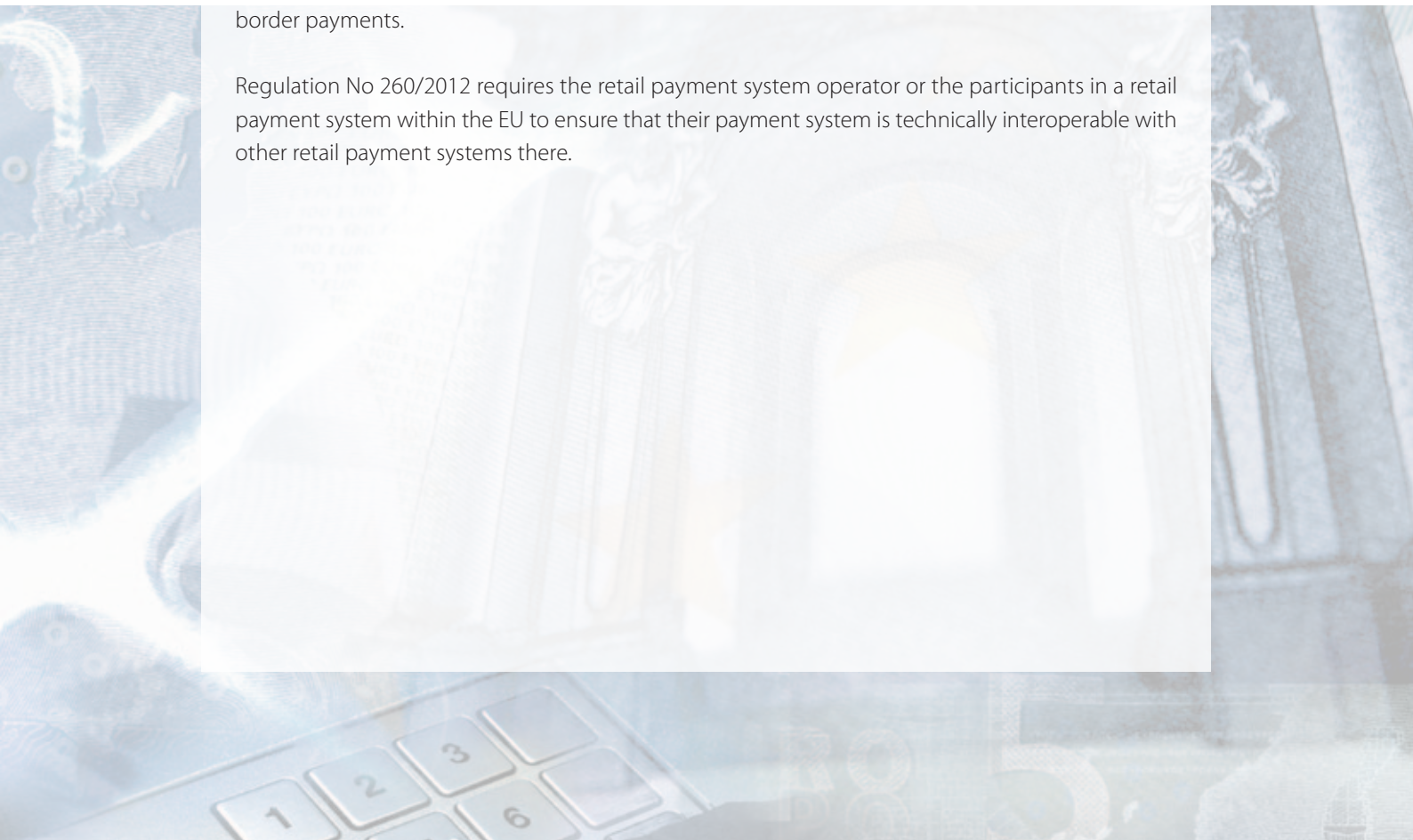
### Separation of scheme management and processing infrastructure

With SEPA, the management of the schemes will be separated from the processing infrastructure. This will enable infrastructure providers to offer their services to all payment service providers in SEPA. For instance, card processors will be able to serve different card schemes and acquirers throughout SEPA. This will increase business opportunities and competition for infrastructure providers.

### Interoperability

Technical interoperability is a key element. Without interoperability, it would not be possible to create an integrated market for electronic payments systems in euro, which is the basic aim of SEPA. It is essential that the processing of credit transfers and direct debits is not hindered by business rules or technical obstacles such as compulsory adherence to more than one system for settling cross-border payments.

Regulation No 260/2012 requires the retail payment system operator or the participants in a retail payment system within the EU to ensure that their payment system is technically interoperable with other retail payment systems there.



## 4. SEPA AND THE EUROSISTEM

### Why is the Eurosystem involved in SEPA?

The Eurosystem's interest in the SEPA project, and in the financial integration of payment systems in general, is based on its statutory role in promoting the smooth operation of payment systems and safeguarding financial stability, as laid down in the Treaty on the Functioning of the European Union.

### The Eurosystem's activities

#### The Eurosystem supports the development of SEPA in the following ways:

- **Ensuring that SEPA is in the interest of all stakeholders:** throughout the design and setup phases, the Eurosystem has participated in the working groups of the European Payments Council (EPC); the Eurosystem organises its own events and fora, and participates in external events to make sure that the needs of all stakeholder groups – consumers, retailers, companies, payment service and infrastructure providers, etc. – are taken into account. The ultimate aim, since the start of the project, has been to ensure that the resulting retail payment market is in the best interests of the EU. Ensuring the security of payment services is an essential aspect of this work.
- **Providing guidance to market participants:** through speeches and publications, such as SEPA migration or progress reports, the Eurosystem provides a continuous assessment of the progress made and draws attention to the issues that need further work. In addition, the Eurosystem offers guidance to the market whenever it is needed by clarifying specific issues. For instance, the Eurosystem has defined Terms of Reference for the SEPA-compliance of card schemes and specified criteria for the SEPA-compliance of the clearing and settlement industry.
- **Contributing to coordinated communication and information:** the Eurosystem considers it important to keep all stakeholders informed in a timely, transparent and consistent manner. In order to reduce the risk of misunderstandings that is given by nature in such a major project, the Eurosystem helps to coordinate information flows and SEPA communication activities at the European and national levels. All euro area countries have set up coordination bodies, in many cases including dedicated communication workstreams. These consist mainly of representatives from the national governments, national banking associations, end-user organisations and the national central banks. Their purpose is to ensure the implementation of SEPA by keeping all participants fully informed and by preparing them for SEPA. The national central banks have a key role regarding SEPA communication in many countries. The ECB coordinates best practice exchange and organises communication at the European level, in cooperation with the national central banks, the European Commission and European stakeholders.
- **Monitoring and fostering timely migration to SEPA payments:** the Eurosystem – in its capacity as a catalyst – is there to monitor the migration process, to raise awareness about the project and to identify any obstacles to the process, so as to ensure that the agreed deadlines are met by all stakeholders.



Individual central banks are closely involved in the coordination activities around SEPA at the national level. In addition, some were designated as competent national authorities for ensuring compliance with Regulation No 260/2012.

[Quantitative SEPA migration indicators.](#)

[Qualitative SEPA indicators per country and migration report.](#)

[European Commission: Migration to SEPA](#) – Competent authorities responsible for ensuring compliance with Regulation (EU) No 260/2012.

- **Fostering SEPA-wide innovation:** the Eurosystem encourages the market to develop and offer innovative services for the SEPA market that match users' needs in various payment situations (for instance e-payments for e-commerce and m-payments with mobile devices). [Innovation and eSEPA](#)



## Annex: Key requirements of the SEPA migration end-date regulation (Regulation No 260/2012)

- **Same rules and standards for retail credit transfers and direct debits denominated in euro:** the regulation stipulates rules and sets standards for all credit transfers and direct debits denominated in euro within the EU where both payment service providers (or the sole payment service provider in cases where the payer and the payee use the same provider) are located in the EU.
- **International Bank Account Number:** by February 2014, the IBAN will be the sole payment account identifier for national and cross-border credit transfers and direct debits in euro within the EU.
- **Business Identifier Code:** payment service users may still be asked to provide a Business Identifier Code (BIC) until 1 February 2014 for national payments, and until 1 February 2016 for cross-border payments. Member States may defer the requirement to phase out the BIC for national payment transactions until 1 February 2016.
- **ISO20022 XML message standard:** the use of the ISO20022 XML message standard is mandatory: (i) between payment service providers; and (ii) for the bundled transmission of credit transfers and direct debits in euro by business users that are not microenterprises (microenterprises are enterprises with less than ten staff members and a turnover or a balance sheet total of up to €2 million). Some Member States have decided to defer the requirement to use the XML message standard for bundled transmissions by business users until 1 February 2016.
- **Pan-European reachability:** payment service providers must be reachable for EU-wide credit transfers and direct debits in euro if they currently accept equivalent transactions carried out under national payment schemes.
- **Free choice of payment locations:** payers cannot be restricted in choosing from which account in Europe they would like to make credit transfers or direct debits in euro. Neither can payees be forced to receive credit transfers or direct debits in euro in an account held in a specific country.
- **Additional debtor protection measures for direct debits:** consumers may instruct their payment service provider on how to handle incoming collections by specific billers. They may draw up black lists or white lists of billers, set maximum amounts, or specify payment intervals. In addition, they can block any direct debit collections from their payment account.
- **Multilateral interchange fees eliminated for direct debits in euro:** multilateral interchange fees (levied between payment service providers in some Member States on individual direct debits) will be eliminated for direct debits in euro. Such fees were eliminated on 1 November 2012 for cross-border payments, whereas for national payments, they will be eliminated by 1 February 2017.
- **Principle of equal charges:** payment service providers must apply equal charges to comparable cross-border and domestic payments in euro within the EU (Regulation No 924/2009). This principle of equal charges has been reinforced by the SEPA migration end-date regulation, which has eliminated the €50,000 ceiling previously set for the requirement of equal charges.



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Address	Kaiserstrasse 29, 60311 Frankfurt am Main, Germany
Postal address	Postfach 16 03 19, 60066 Frankfurt am Main, Germany
Telephone	+49 69 1344 0
E-mail	<a href="mailto:info@ecb.europa.eu">info@ecb.europa.eu</a>
Website	<a href="http://www.sepa.eu">www.sepa.eu</a>
Layout	Imprimerie Centrale s.a., Luxembourg

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