



SEPA & Payment Systems Directive (PSD)

**Vasilis Panagiotidis
Special Advisor**

November 2007

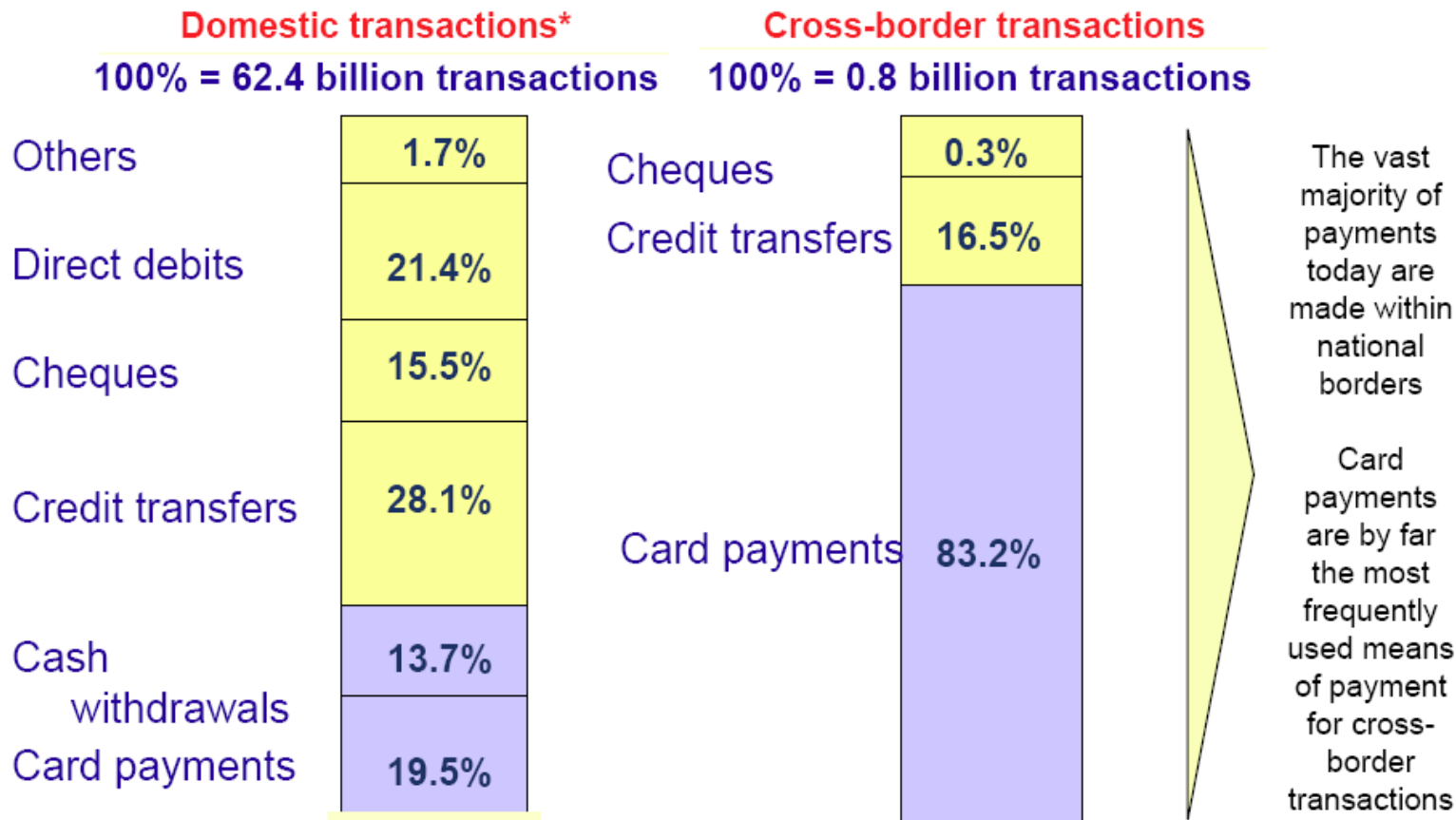
SEPA

THE SINGLE EURO PAYMENTS AREA

What is SEPA?

- EMU + the euro = a foundation for an integrated European market for goods and services.
- **Regulatory / political aim** = creation of a Single Market underpinned by a Single Euro(pean) Payment Area:
 - Euro – as the currency
 - European – in terms of its scope.
- **Definition of SEPA:**
 - *“SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location” (Source: EPC Roadmap December 2004).*
- **Geographical Scope:** Europe, in this context, consists of the EU 25 Member States + Iceland, Norway, Liechtenstein (EEA) and Switzerland.

Split of Cross-Border and Domestic Payment Transactions in the EU15

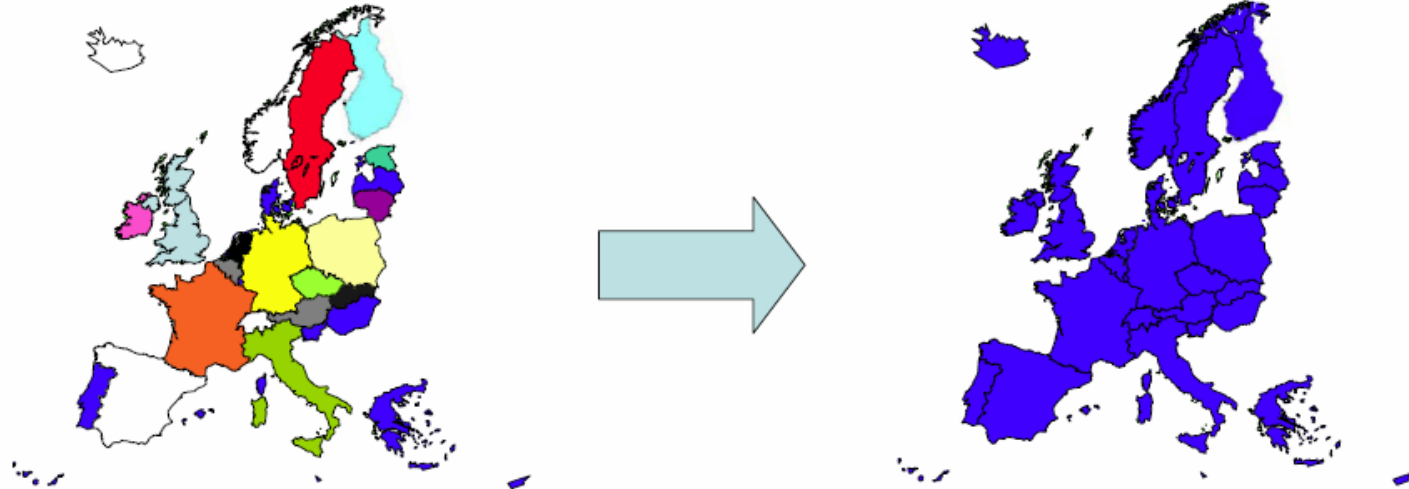


Slide source: EPC presentation to Accessing Countries 30 Oct 03

*Estimate based on 1999 figures . Source: EFMA; SWIFT; TARGET; ECB Statistics; McKinsey analysis – EU15, 2001



Vision and Objectives



- TODAY
- National / local solutions
- Different schemes, experiences, standards, consumer protection laws
- No interoperability of national schemes
- Fragmented industry
- Cross-border complexity and risk

SEPA

- “Local” solutions for Europe
- Common core schemes and experiences, consistent standards, application of harmonised consumer protection laws
- Improved interoperability
- Reduced complexity



The European Payments Council (EPC)

- Set up in June 2002, EPC is now recognised as the decision-making and co-ordination body of the European banking industry in relation to payments. Its primary purpose is to support the creation of SEPA.
- Over 60 Members - banks or banking associations - from 27 European countries, representing all sizes and sectors of credit institutions.
- EPC is also delivering a governance structure to facilitate self-regulation, operating on a basis of consensus and co-operation, whilst allowing for competition.
- The HBA is representing the Greek Banking Community (Plenary, WG and SG)

EPC and its deliverables

- The EPC's **primary deliverables** are:
 - the development of **SEPA Credit Transfer** and **SEPA Direct Debit Schemes** establishing a set of core inter-bank rules, practices and standards around which banks can compete to offer credit transfer and direct debit products to their customers and potential value-added services at national community level
 - the elaboration of a **SEPA Card Framework** that sets out the requirements for card schemes to become SEPA-compliant rather than creating a new card scheme

- The EPC's **next phase deliverables**:
 1. Online payments
 2. m-payments
 3. e-invoicing
 4. Cards standardisation

European Commission & ECB

- Fully support the realisation of SEPA.
- Expect key deliverables in 2008 and 2011
 - **1.1.2008**: launching of SEPA payment cards
 - **28.1.2008**: launching of SEPA credit transfers
 - **November 2009**: launching of SEPA direct debits
 - **1.1.2011**: A critical mass of electronic payment instruments must be SEPA
- Have expressed the willingness to intervene with regulation if necessary

European Commission & ECB

Commissioner McCreevy acknowledged in a recent speech that:

“...integrating fragmented national payment systems will involve significant investments from the participants:

– 8,000 banks will have to adapt their operating systems to handle new products and services

– 2 million enterprises will have to prepare themselves to interact with these new payment systems”.

European Commission & ECB

ECBs views on SEPA expressed by by Jean-Michel Godeffroy:

- 1. SEPA is not an option*
- 2. the SEPA casting is incomplete: the final customer is missing*
- 3. one major payment instrument is missing: the European debit card scheme*
- 4. timing is an issue*
- 5. SEPA is not enough. We also need to prepare e-SEPA.*

SEPA Legal Harmonisation Requirements

- No inventory of legal barriers within Commission documentation
- EPC has commissioned external legal advice aimed at identifying legal barriers to SEPA

Three key requirements identified so far:

- Harmonised rules on Right of Refund (Direct Debits).
- Primacy of Account Number over name to allow fully automated processing
- Balance of Payments reporting requirements

PSD

THE PAYMENT SYSTEMS DIRECTIVE

History of the Directive

- Communication on possible scope and content issued by Commission in December 2003
- Commission consulted through meetings of expert groups, bilateral meetings and invitations for written submissions
- 6 iterations of draft working document issued for consultation with industry and other parties. Significant differences between versions
- Compliance with SRVII regarding originator information split out into a separate Regulation
- Formal PSD proposal issued 1 December 2005
- PSD text formally adopted by the General's affairs council on 15th October 2007

The Commission's Objectives

- A building block for SEPA
- Enhanced competition between national payment markets by opening up markets and ensuring a level playing field
- Increased market transparency for both providers and users
- Standardised rights and obligations of providers and users of payment service in the EU, with strong emphasis on a high level of consumer protection
- Promotion of modernisation and efficiency of payment systems



The Directive's Structure

- I Subject-matter, scope and definitions
- II Payment Service Providers
- III Transparency of conditions for payment services
- IV Rights and obligations in relation to the provision and use of payment services
- V Amendments and Payments Committee
- VI Final Provisions

Annex: Payment Services under Article 2(1)

Title I

Subject–matter, scope and definitions

- Covers all payments, in the EU and between EU and third countries, in all currencies with exception of cash-only transactions and paper based transactions
- Includes key definitions
- Sets €50,000 limit on Titles III & IV
- Annex defines what is a “payment service”

Title II

Payment Service Providers

- Sets out regulatory regime for currently unregulated providers of payment services including mobile phone operators (“Payment Institutions”)
- Includes Member State waiver capability for smaller providers
- Specifies permissible access criteria to payment systems

Title III

Transparency of conditions for payment services

- Focuses on transparency and ensuring customers receive sufficient information to enable proper competition
- Single transaction and “framework contract” sections
- “Micro-payments” - exemption for payments not exceeding €50

Title IV

Rights and obligations in relation to the provision and use of payment services

- Sets out rights and obligations of parties to payment transaction
 - *What the customer has to do.*
 - *What the payment service provider has to do.*
 - *What happens & who is liable if things go wrong.*
- Mandates a move to “D+1” execution time for credit transfers by 2012
- Provides refund rights for disputed transactions

Title V

Amendments & Payments Committee

- Sets out Comitology and process for amendments
- Allows for future amendments by the Commission, assisted by the Payments Committee, for example to the Appendix defining what a “payment service” is and to various limits

Industry Recommendation: In view of the complexity of the issues, and the importance of payment systems to the EU economy, there is a need for market consultation before amending the Directive

Title VI

Final provisions

Sets out:

- Transposition timetable
- Other directives amended
- Transitional provision
- Timetable for report on implementation

Industry Recommendations

(1) In view of the end-to-end liability regime created by the Directive, a “big bang” implementation may be preferable to staggered implementation across Member States

(2) Given the breadth and complexity of the Directive and the interrelationship with SEPA, a longer period than 2 years may be sensible before reviewing effect of implementation

Annex

Payment Services under Article 2(1)

Provides a definitive list of what constitutes a “payment service” & is therefore in scope

PSD Impact on SCT and SDD

Overview of the issues with business impact on *SDD Scheme*

Issue 1: Timeline for refund request: 6 weeks >> 8 weeks

Issue 2: Value date in the case of late debiting

>> not allowed >> loss for banks

Issue 3: refund claims for unauthorised collections

>> replace 12 months by 13 months

Issue 4: Customer Banking Business Day

>> use term: Banking Business Day + new definition

Issue 5: Mandate text to be amended : still pending

PSD Impact on SCT and SDD

Overview of the issues with business impact on *SDD Scheme* (2)

Issue 6: Irrevocability of a payment order

- >> no alignment timelines of ‘refusal’ and ‘refund’ on the PSD, reference to the PSD to be added to the Rulebook

Issue 7: Liability of PSP to pay refunds “immediately”

- >> maintain the 30 days maximum for refund process

Issue 8: Harmonisation of terminology between PSD and SDD

- >> rejected, a correspondence table is to be added to the Rulebook

Issue 9: Need for follow-up of the PSD transposition in national law

Issue 10: refunds in the B2B Scheme

- >> only for incorrect execution: to be handled in the legal review of the B2B SDD Scheme

PSD Impact on SCT and SDD

Overview of the issues with business impact *on SCT*

Issue 1: Point in time of receipt (PSD) versus acceptance date (SCT)
>> add a link in the Rulebook

Issue 2: Plan future Rulebook update for the maximum execution time allowed (D+1 from)

Issue 3: Synchronisation of PSD transposition in national law(s) efforts to be made, but might not be perfect

Article 66: IBAN primacy issue in some countries until PSD transposition



Contact Points

Vasilis Panagiotidis:



+30 210 3386 526



email: vpanagio@hba.gr