

EPC Workshop

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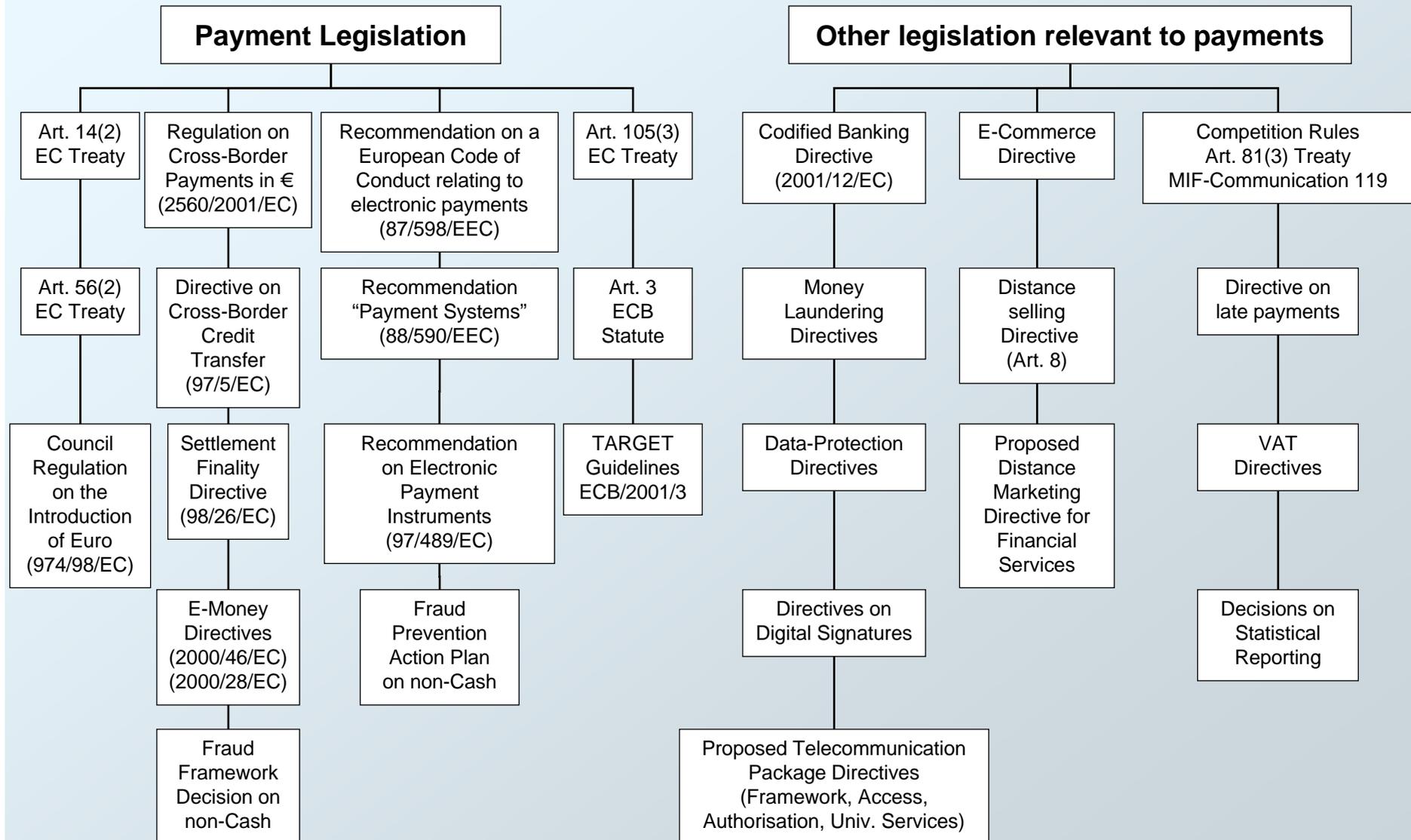
AGENDA

- Regulatory environment
- Large-value payments
- Retail payments
- Standards
- Issues for accession countries

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EU LEGISLATION ON RETAIL PAYMENTS AND OTHER RELEVANT LEGAL ACTS



EUROPEAN UNION INSTITUTIONS

European Commission

Roles:

- Proposes legislation:
 - Regulations (binding, directly applicable)
 - Directives (binding, must be transposed in National legislation)
 - Decisions (binding)
 - Recommendations and Opinions (non-binding)
- Acts as Guardian of the Treaties and of “Acquis communautaire” (Established Community law)
- Takes sanctions for non-compliance
- Monitors implementation

Payments affairs:

- DG Market (Frits Bolkestein)

Council of the European Union

Roles:

- Participates (with the European Parliament) in the adoption of Regulations and Directives

Payments affairs:

- ECOFIN (Economic & Financial Affairs) = Council of Ministers of Finance



European Parliament

Roles:

- Amends and / or approves Proposals for Regulations and Directives

Payments affairs:

- Economic & Monetary Affairs Committee (Christa Randzio-Plath)

European Central Bank

Roles:

- Defines and implements monetary policy
- Promotes smooth operation of payment systems
- Advises on any proposed community act in its field of competence

Payments affairs:

- Directory of Payments Systems (Jean-Michel Godeffroy)

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TARGET

Trans-European Automated Real-time Gross-settlement Express Transfer

System

- TARGET is the real-time gross-settlement system of the EU Central Banks
- It provides intraday processing of large-value cross-border Euro payments
- TARGET's Interlinking component connects the EU Central Banks' national real-time gross-settlement systems

Transactions

- Payments directly related to Central Bank operations
- Payments related to the settlement of large-value net settlement systems
- Also used for the settlement of relatively low-value commercial payments

Eligible currency

- €

Participants

- 1,560 direct participants
- 2,328 indirect participants
- 40,000 banks are now addressable in TARGET (worldwide)

FURTHER EVOLUTION - TARGET2

ECB's Public Consultation

- Issued on December 16, 2002
- The Consultation is made of 4 sections:
 - Section 1 outlines the general features and structure of TARGET2
 - Section 2 addresses issues related to the perimeter, the business, the services, and the interfaces of TARGET2
 - Section 3 elaborates on governance, financing and pricing issues
 - Section 4 describes the further steps in the establishment of TARGET2
- *“Accession Country Central Banks will be given the same rights and obligations with regard to the TARGET connection as the current non-euro National Central Banks. For those Accession Country Central Banks that do not wish to establish their own euro-RTGS platform, an interim solution will be offered until the shareable platform becomes available”*

Highlights from Banking industry's reaction to Consultation

- We want a totally integrated, single system, with a single interface (for domestic and cross-border) payments
- The single shareable platform should be neutral to all users
- The present heterogeneity of TARGET should disappear (from technical and business perspectives)
- A clear implementation plan is needed, with the shortest convergence period possible
- We suggest a close involvement of the system users in the decision-making process
- We want a full transparency in the fixing of pricing
- The service should be 100% available with full resilience

EURO1

System

- Euro1 is a same-day cross-border payment system processing large-value payment instructions denominated in €
- The system is operated by EBA Clearing Company SA. It is based on information messaging infrastructure provided by SWIFT
- Settlement is made at the ECB, via TARGET, at the end of business day

Transactions

- Customer and interbank credit transfers and direct debits

Eligible currency

- €

Participants

- 74 participants from 20 countries (15 EU countries + European branches of banks from Australia, Japan, Norway, Switzerland, and USA)
- 35 sub-participants

Access criteria

- Own funds of at least € 1.25 billion
- Short-term credit rating of at least P2 (Moody's), or A2 (S&P), or equivalent
- Direct access to an EU RTGS system connected to TARGET

CLS

Continuous Linked Settlement

System

- CLS is a multi-currency real-time system for the settlement of foreign exchange transactions on a PVP basis.
- Transactions are settled in the books of CLS Bank, where all settlement members have opened multi-currency accounts

Transactions

- FX transactions in eligible currencies (excluding same-day settlement)

Eligible currencies

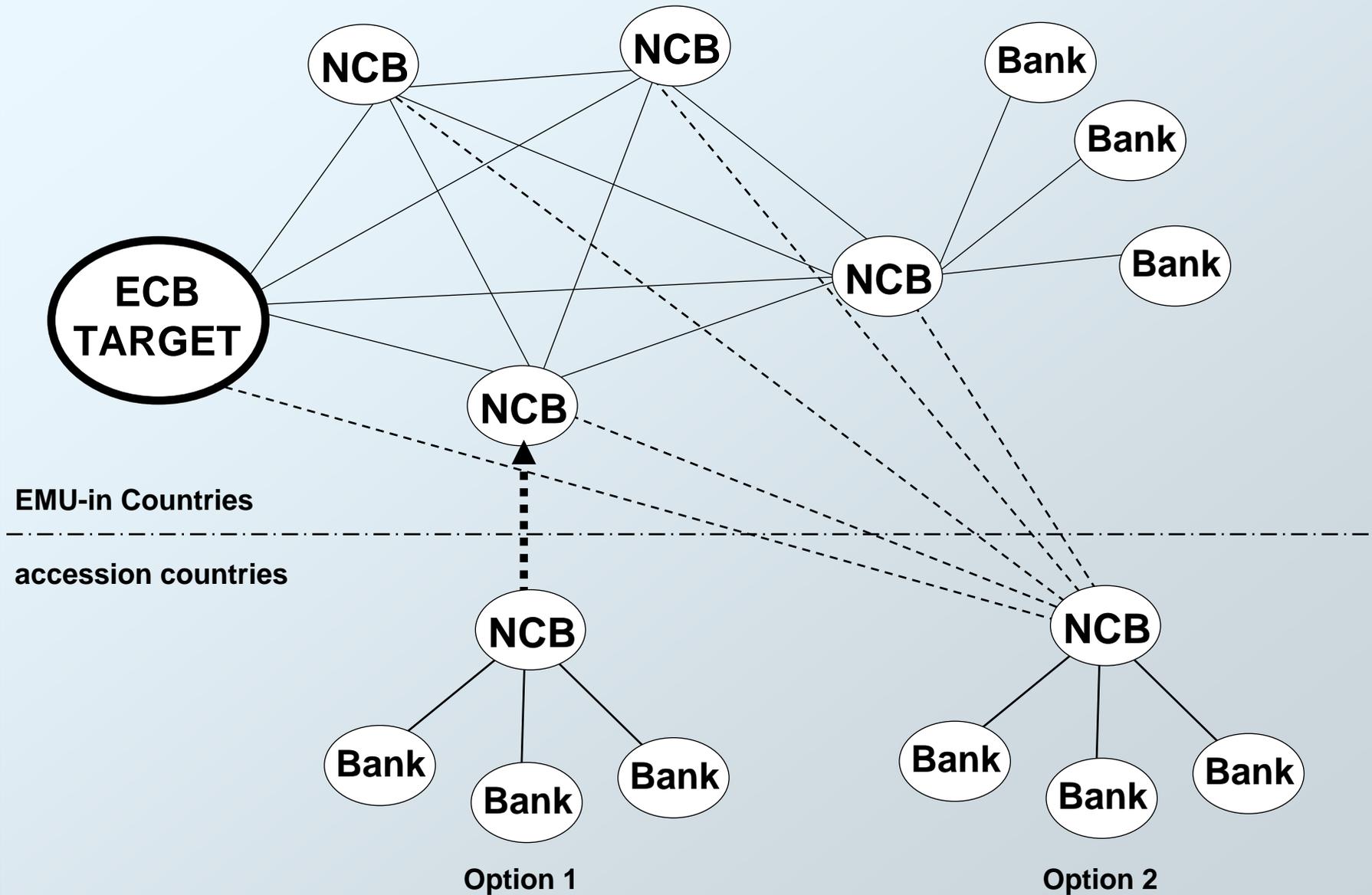
- As from start, in September 2002: €, GB Pound, US Dollar, Swiss Franc, Canadian Dollar, Japanese Yen, Australian Dollar
- Foreseen: Norwegian Krone, Hong Kong Dollar, Danish Krone, Swedish Krona, New Zealand Dollar, Singapore Dollar

Participants

- 49 settlement members

NATIONAL SETTLEMENT SYSTEMS

Role after accession to EU



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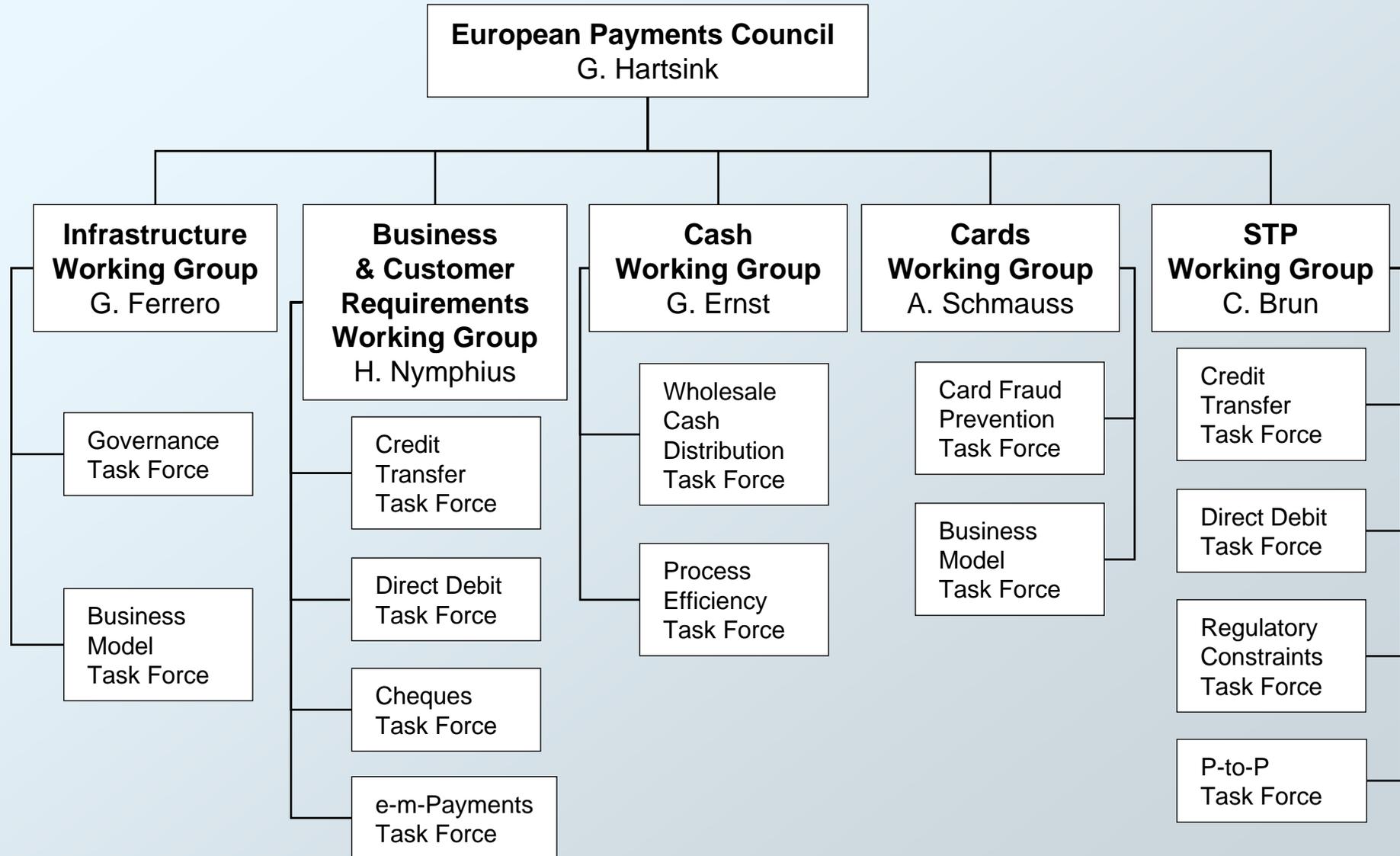
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EUROLAND – OUR SINGLE PAYMENT AREA!

Declaration issued at the close the workshop of March 25-26, 2002

*"We, the European banks and credit sector associations,
- Share the common vision that Euroland payments
are domestic payments
- Join forces to implement this vision for the benefit of
European consumers, industry and banks
And accordingly,
- Launch the initiative 'Euroland – Our Single
Payment Area'!"*

THE EUROPEAN PAYMENTS COUNCIL



FIRST CONCRETE RESULTS AND IMPORTANT WORK IN PROGRESS (1/3)



Readiness package

- Credeuro
- ICP (Interbank Convention on Payments)
- Q & A
- Implementation guidelines



P€DD (pan-Euro Direct Debit)

- P€DD Definition completed
- Mandate contents & requirements nearly completed
- Mandate process (initiated by creditor/creditor bank) nearly completed
- Clearing / Settlement principle along the lines of PE-ACH -> to be handed over to Infrastructure WG



Cheques - Terms of reference agreed

- 1st priority
Elimination of pan-European cross-border use of cheques
- 2nd priority
 - Develop “game plan” / exchange experience of how to discourage use of domestic cheques
 - Identify incentives / alternate products to support move away from domestic cheque usage

FIRST CONCRETE RESULTS AND IMPORTANT WORK IN PROGRESS (2/3)



PE-ACH framework:

- “A business platform for the provision of euro retail payment instruments and basic related services, made up of governance rules and payments practices and supported by the necessary technical platform(s)”
- Country-neutral open to any financial institution in the SEPA for direct participation and ownership.
- Efficient distribution of payment instructions to any financial institution operating in the SEPA.
- Based on new pan-European industry standards and dataset.
- Open to progressive migration of domestic traffic (see “Concentric Model”)
- Fair and transparent governance structure



EBA-STEP2 validated as first PE-ACH service provider

- Activities started on April 28, 2003

FIRST CONCRETE RESULTS AND IMPORTANT WORK IN PROGRESS (3/3)



Receiver capability – key points:

- Each national banking community in the EU shall make sure that all banks in its community are reachable by PE-ACH
- All financial institutions in a national banking community may become direct or indirect participants of PE-ACH
- Any direct participant can act as an entry point to provide distribution service to non-participants
- Each national banking community shall set up business practices and procedures in order to preserve for incoming intra-EU credit transfers the STP character necessary to maintain the “low cost / low revenue” structure of the payments processed
- The cost of “receiver capability” will be borne by the receiving banking community; each community is free to define its rules and procedures regarding the sharing of charges
- The current target date to put Receiver capability in place for credit transfers is December 31st, 2003

STEP1

System

- STEP1 is a cross-border retail payment system, developed by EBA to meet the following objectives:
 - Shorten the payment execution time
 - Foster the use of industry standards to enhance straight-through processing in financial institutions
 - Develop European business practices in relation to cross-border retail payments

Transactions

- Customer retail credit transfers and direct debits, and related interbank transfers

Eligible currency

- €

Participants

- Over 200 STEP1 Participants
- Over 8,000 BICs (Bank Identifier Code) can be reached directly

STEP2

System

- STEP2 is a highly automated system providing a pan-European ACH solution for the processing of low-value, non-time critical bulk payments
- Operations started on 28 April 2003

Transactions

- Initially, high-volume low-value commercial and retail cross-border (intra-EU) credit transfers
- Payment messages must be formatted according to agreed standards (CREDEURO)
- STEP2 is designed to integrate progressively local traffic; it will be adapted to accept other types of payment transactions (e.g., direct debits)

Eligible currency

- €

Participants

- 18 STEP2 Banks, as from start in April 2003
- 13 more joining in June 2003

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MAIN PAYMENT STANDARDS AND STANDARD ENTITIES

ECBS (European Committee for Banking Standards)

www.ecbs.org

Membership:

- 3 European Credit Sector Associations (ECSAs)
- National representatives from 20 countries

Organisation:

- 4 Technical Committees:
 - TC1: Plastic cards and Related Services
 - TC2: Automated Cross Border Payments
 - TC4: Security
 - TC6: Electronic Services
 - 14 Working Groups
-

IBAN – International Bank Account Number

“An expanded version of the Basic Bank Account Number, used internationally to uniquely identify the account of a customer at a financial institution”

SWIFT (Society for Worldwide Interbank Financial Telecommunication)

www.swift.com

SWIFT transmits messages for the benefit of its member financial institutions, and develops messaging standards.

In 2002, SWIFT had 7,601 live users in 198 countries. It transmitted over 1.8 billion messages.

MT103

*“The new standard for Customer Transfers which, together with its **MT103+** subset, allows for greater automation, fewer repairs, and lower processing costs”*

BIC – Bank Identifier Code

“An internationally-recognized identifier of financial institutions, for which SWIFT has been appointed Registration Authority”

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WHAT SHOULD ACCESSION COUNTRIES DO?

- Adapt / align their legal, regulatory framework to meet EU payments legislation requirements
- Adapt / align their market practices to meet EPC / SEPA payment market requirements and best practices
 - e.g., CREDEURO, MT103+, IBAN, BIC, STP, Pay Direct, ICP
- Decide on best option to connect to TARGET
- Encourage banks to connect to existing infrastructures, if not done yet:
 - EBA EURO1 / STEP1 / STEP2
 - SWIFT
 - Etc.
- Get involved proactively in payments forums / groups organised by:
 - FBE, EPC, ECB, EU Commission, etc.



DO NO LONGER
THINK
DOMESTIC,
THINK SEPA!