



EURO BANKING ASSOCIATION

**BANKS PREPARING  
FOR SEPA MIGRATION**

**A GUIDE TO THE  
SEPA MIGRATION  
END-DATE REGULATION**



# ABOUT THE EURO BANKING ASSOCIATION

The Euro Banking Association (EBA) plays a major role in the financial industry as the largest network of payment practitioners with a pan-European mindset and vision. The EBA provides a country-neutral forum for discussing and driving pan-European payment initiatives. It actively supports banks in their continued migration to the Single Euro Payments Area (SEPA) and in other collaborative initiatives at a pan-European level.

Based on the support of its unique membership, the EBA contributes to the development and improvement of pan-European business practices in cooperation with regulatory and industry bodies. The communication and explanation of these business practices and other industry developments to its membership and the wider industry constitute another important part of the EBA's mission.

The EBA was founded in 1985 by 18 commercial banks and the European Investment Bank, with the support of the European Commission. Today, the EBA includes close to 200 member organisations from the European Union and across the world.

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# EXECUTIVE SUMMARY

The SEPA Migration End-Date Regulation came into force on 31<sup>st</sup> March 2012. It brings significant changes to the end-to-end processing of euro retail credit transfers and direct debits within the European Economic Area, which will have a major impact on payment service providers (PSPs) and users (PSUs).

The key changes mandated through the Regulation are the following:

- one single end-date for the use of the existing national credit transfer and direct debit formats and schemes;
- the use of message formats based on the ISO 20022 XML standard in the interbank space and for PSUs that are not consumers or microenterprises and that send or receive payments in files;
- the removal of the requirement that the payer or payee has to provide the BIC for the initiation of a payment transaction;
- conditions for Regulation-compliant payment schemes to ensure identical rules for national and cross-border transactions within the Union and participation by a majority of PSPs within a majority of Member States;
- Union-wide reachability for PSPs reachable for credit transfer and direct debit services at national level;
- technical interoperability between payment systems within the Union through the use of standards developed by international or European standardisation bodies;
- a phase-out of per transaction multilateral interchange fees (MIFs) for direct debits, except for MIFs on R-transactions, which will be allowed subject to certain strict conditions;
- additional protection measures for consumers with regard to direct debits;
- the prohibition for PSUs to specify the Member State in which the payment account of their counterparty is to be located when making or receiving credit transfers or direct debits;
- the equality of charges requirement stipulated in Regulation EC 924/2009 for euro credit transfers and direct debits to be extended to include those with an amount beyond EUR 50,000;
- the removal of settlement-based national reporting obligations on PSPs for balance of payments statistics relating to credit transfers or direct debits of their customers.

PSPs will have to make the necessary preparations to ensure that both their internal processes and the processes involving their customers allow for Regulation-compliant processing from the respective migration end-dates on. They should closely study the provisions of the new Regulation and the deadlines set for the different changes to come into effect. In addition, PSPs also need to take into account possible deadline extensions and other optional measures that the Member States in which they operate may decide on.

This EBA guide is geared at supporting banks in their preparations for the SEPA Migration End-Date Regulation. It explains the requirements of the Regulation and gives practical guidance around the implementation of these requirements.

# 1 INTRODUCTION

## 1.1 WHAT IS THIS GUIDE ABOUT?

*Banks Preparing for SEPA Migration* has been compiled by an EBA Working Group. Its objective is to provide a concise overview of the new Regulation and its requirements. The guide points out the practical implications the Regulation will have on the business of payment service providers. Banks will have to take these implications into consideration in their preparations for the migration to the Single Euro Payments Area.

The EBA guide is based on the final version of Regulation (EU) No 260/2012 of 14<sup>th</sup> March 2012 of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009, published on 30<sup>th</sup> March 2012. The Regulation came into force on 31<sup>st</sup> March 2012.

*Banks Preparing for SEPA Migration* does not provide a legal interpretation of the Regulation. It should be noted that the source document takes precedence and any implementation initiatives need to be based on a close analysis of the text of the Regulation.

The Regulation will be referred to as the “SEPA Migration End-Date Regulation” throughout this document.

## 1.2 HOW DOES THE REGULATION FIT INTO THE LARGER PICTURE OF EUROPEAN HARMONISATION AND STANDARDISATION EFFORTS?

The SEPA Migration End-Date Regulation is a central element in a series of regulatory and self-regulatory measures geared at creating a fully integrated environment for euro payments, the Single Euro Payments Area (SEPA).

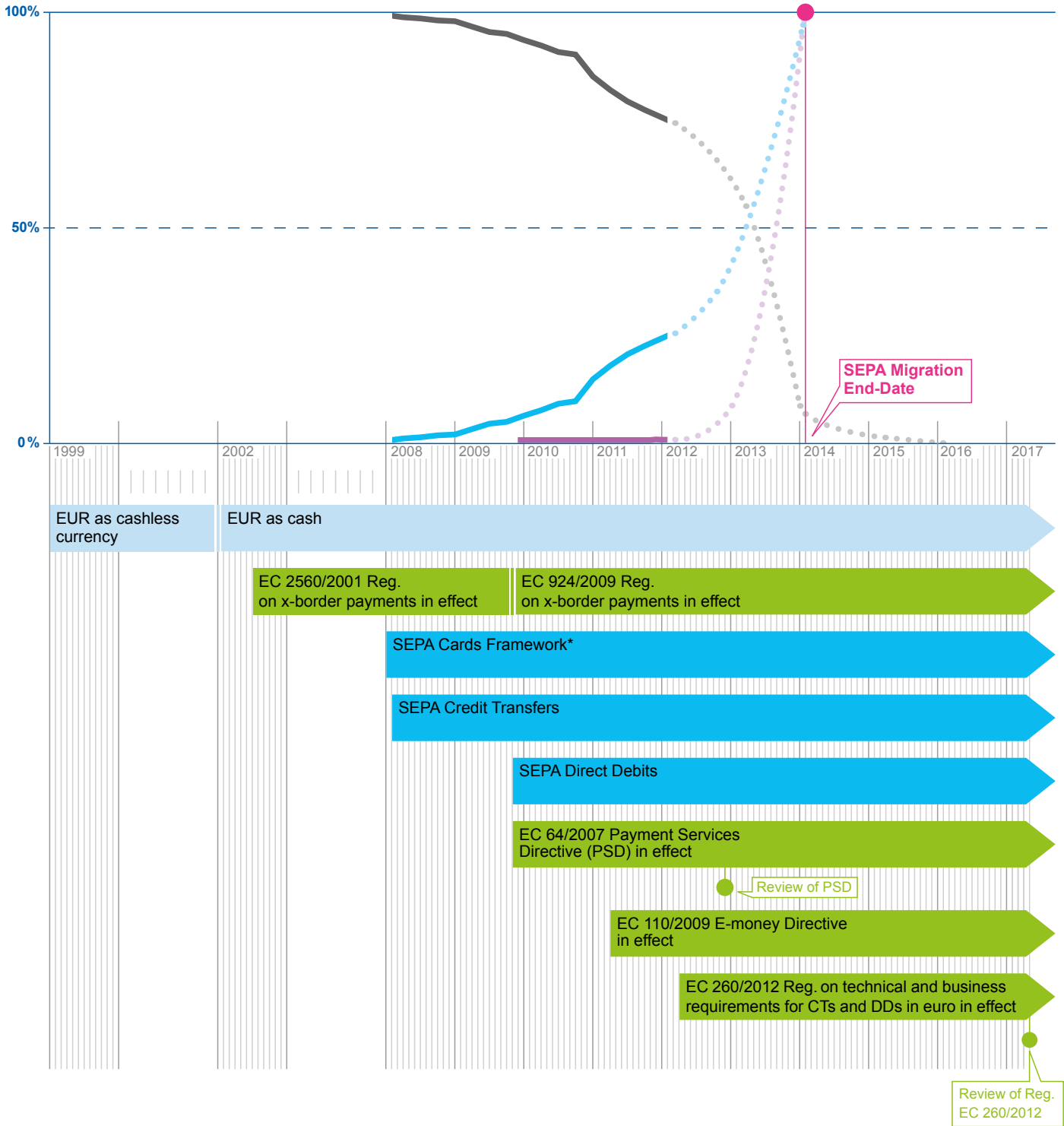
The SEPA initiative should enable consumers, businesses and governments to make cashless payments throughout the Single Euro Payments Area from a single payment account anywhere in that area using a single set of payment instruments as easily, efficiently and safely as they can make payments today in the domestic context.

The SEPA vision is part of the Lisbon Agenda, which was agreed in March 2000 to promote growth and employment through modernising the European economy, and also ties in with Agenda 2020, the European Union’s growth strategy for this decade. It is a key milestone towards the establishment of a fully integrated Single Market for the European Union.

The SEPA Migration End-Date Regulation is the first legislation at European level in the field of payments that will impose the use of specific standards for the processing of euro payments on both payment service providers and their customers.

The table on the following page gives an overview of the major regulatory and self-regulatory milestones in this European payment harmonisation process.

PROGRESS IN EUROPEAN PAYMENT HARMONISATION



- % share of SCTs in number of total transactions processed via CSMs (Source: ECB)
- % share of SDDs in number of total transactions processed via CSMs (Source: ECB)
- Phase-out of legacy payments

- Introduction of the Euro
- Regulation/Directive
- EPC SEPA Schemes

\*It should be noted that card transactions are one of the payment instruments covered by the SEPA initiative but they are not in scope of the SEPA Migration End-Date Regulation, which only focuses on credit transfers and direct debits.

## 2 WHAT IS THE SEPA MIGRATION END-DATE REGULATION?

### 2.1 SCOPE AND PURPOSE

The Regulation applies to credit transfers and direct debits in euro that take place within the European Economic Area (EEA)<sup>1</sup>. For the Regulation to apply, the payment service provider(s) of both the payer and the payee must be located in this area. In practice, this means that the payment accounts of the payer and the payee that are involved in the transaction also must be located in the EEA.

It is important to note that the Regulation also covers transactions where the payer's and the payee's payment account are held by the same PSP ("on-us transactions", book-entry transactions).

The main purpose of the Regulation is to ensure that payment service providers (PSPs) and payment service users (PSUs) migrate to using solely credit transfers and direct debits that comply with the Regulation.

The key changes mandated through the Regulation are the following:

- one single end-date for the use of the existing national credit transfer and direct debit formats and schemes [Art. 6(1) and (2)];
- the use of message formats based on the ISO 20022 XML standard in the interbank space and for PSUs that are not consumers or microenterprises and that send or receive payments in files [Art. 5(1)(b) and (d)];
- the removal of the requirement that the payer or payee has to provide the BIC for the initiation of a payment transaction [Art. 5(4) and (5)];
- conditions for Regulation-compliant payment schemes to ensure identical rules for national and cross-border transactions within the Union and participation by a majority of PSPs within a majority of Member States [Art. 4(1)];
- Union-wide reachability for PSPs that are reachable for credit transfer and direct debit services at national level [Art. 3(1) and (2)];

- technical interoperability between payment systems within the Union through the use of standards developed by international or European standardisation bodies [Art. 4(2)];
- a phase-out of per transaction multilateral interchange fees (MIFs) for direct debits, except for MIFs on R-transactions, which will be allowed subject to certain strict conditions (Art. 8);
- additional protection measures for consumers with regard to direct debits [Art. 5(3)(d)];
- the prohibition for PSUs to specify the Member State in which the payment account of their counterparty is to be located when making or receiving credit transfers or direct debits (Art. 9);
- the equality of charges requirement stipulated in Regulation EC 924/2009 for euro credit transfers and direct debits will apply to all transactions, also to those with an amount above EUR 50,000 [Art. 17(2)];
- the removal of settlement-based national reporting obligations on PSPs for balance of payments statistics relating to credit transfers or direct debits of their customers [Art. 17(4)].

It is possible for Member States to postpone the entry into force of some of the above changes by up to two years. For more information about these Member State derogations (Art. 16), please consult sections 2.2 and 3 of this paper.

<sup>1</sup> The European Economic Area (EEA) comprises the 27 countries of the European Union plus Iceland, Liechtenstein and Norway.

## 2.2 WHERE, WHEN AND HOW DOES THE REGULATION COME INTO FORCE?

The SEPA Migration End-Date Regulation has already been implemented for the European Union, where it entered into force on 31<sup>st</sup> March 2012. As this legal text is a Regulation, its provisions came into effect directly in all the EU Member States and did not need to be transposed into national law. Since it is legislation with relevance for the European Economic Area, it will come into force in Iceland, Liechtenstein and Norway as well<sup>2</sup>.

Monaco and Switzerland are also part of SEPA. This means that PSPs from both countries may adhere to the EPC SEPA Schemes. These schemes may have to be upgraded to comply with the SEPA Migration

End-Date Regulation. Like all other scheme participants, PSPs from Monaco and Switzerland will have to respect the rules of the respective schemes when sending or receiving SEPA Credit Transfers and Direct Debits.

However, Monaco and Switzerland are not part of the EEA and thus are not forced to adopt the SEPA Migration End-Date Regulation as such. Consequently, it is not mandatory under the Regulation for PSPs located in these two countries and offering euro credit transfers or direct debits to become reachable for Regulation-compliant payments.

The below table provides an overview of the geographical scope of SEPA as well as of the payments impacted by the SEPA Migration End-Date Regulation and by the SEPA Schemes respectively:

<sup>2</sup> It should be noted that this Regulation will only apply to Iceland, Liechtenstein and Norway once it has been incorporated into the Annex of the EEA Agreement.

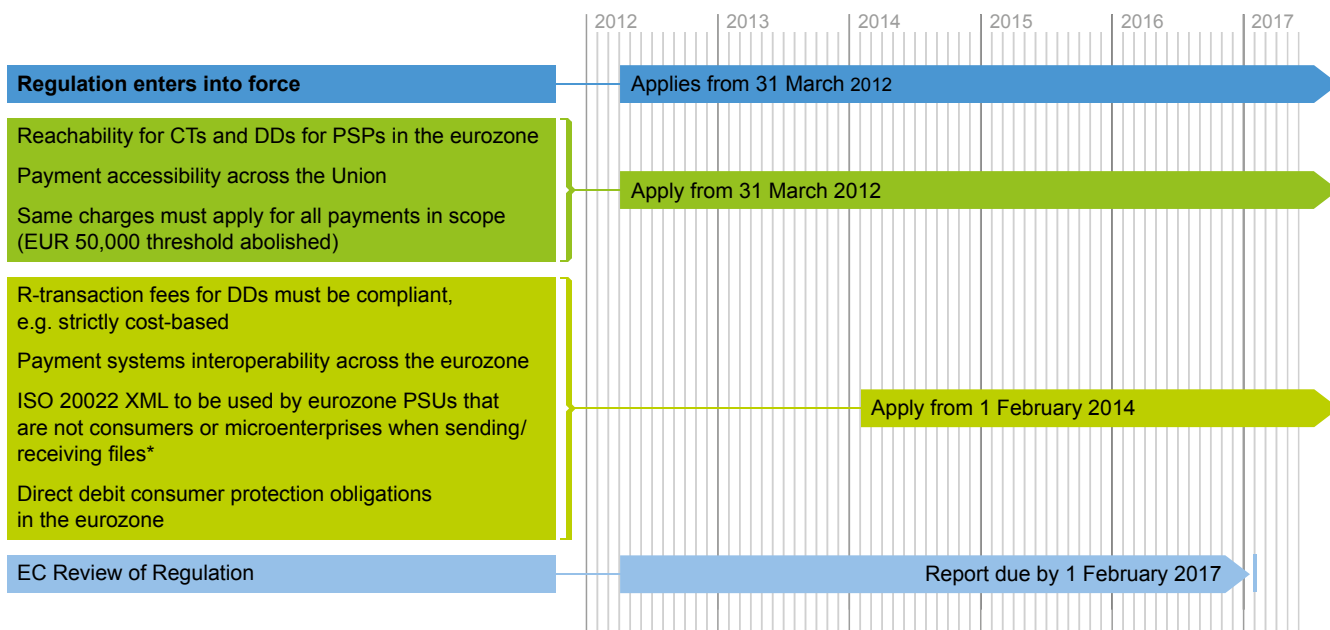
### GEOGRAPHICAL SCOPE OF SEPA

	SEPA countries	SEPA Migration End-Date Regulation provisions applicable to	EPC SEPA Scheme Rules applicable to
Regulation impact	Eurozone	EUR credit transfers and direct debits	EUR CTs and DDs processed under a SEPA scheme by adhering PSPs (mandatory reachability for PSPs)
	Non-EUR Member States plus Iceland, Liechtenstein and Norway	EUR credit transfers and direct debits from 31st Oct 2016	EUR CTs and DDs processed under a SEPA scheme by adhering PSPs (mandatory reachability for PSPs from 31st Oct 2016)
	Monaco and Switzerland	Not applicable	EUR CTs and DDs processed under a SEPA scheme by adhering PSPs
			Scheme impact

The following timetable provides an overview of the dates on which key requirements stipulated by the legislation become applicable.



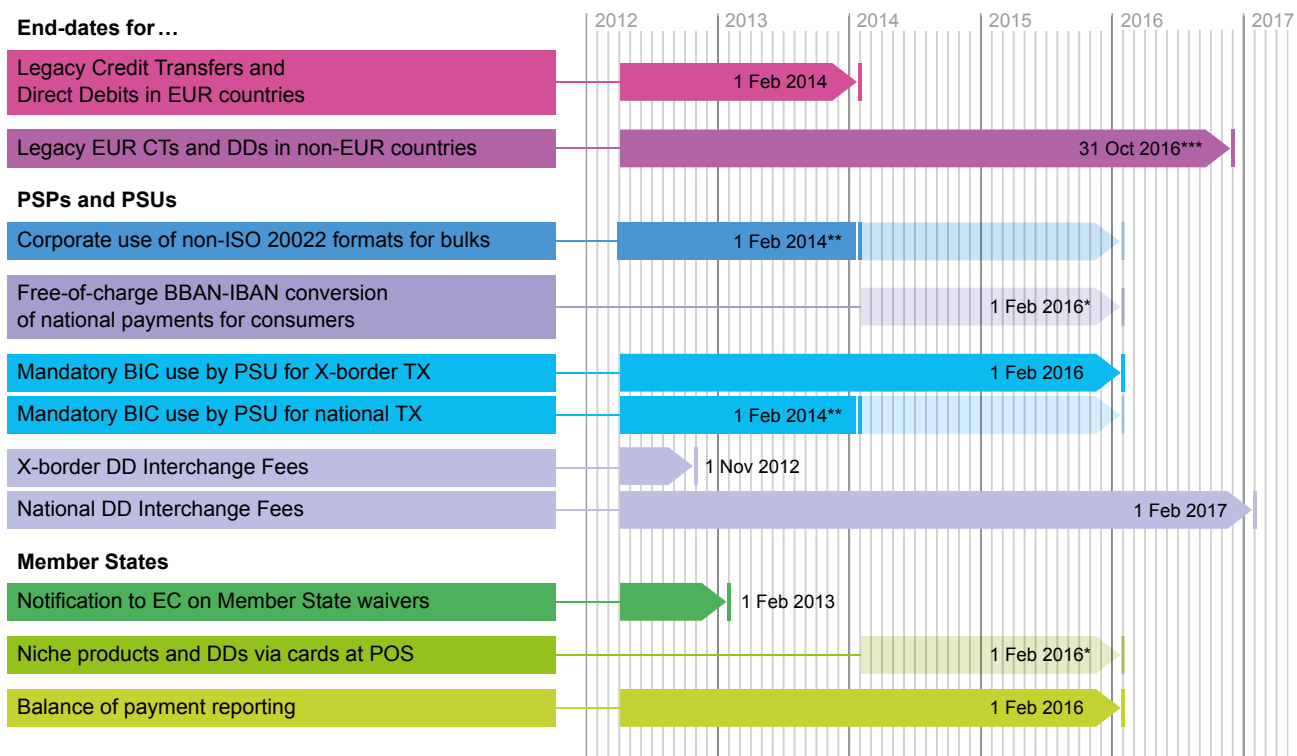
## TIMETABLE: ENTRY INTO FORCE OF KEY REQUIREMENTS



\* unless waiver is applied until 1 Feb 2016 (see next table)

The Regulation also puts an end to using a number of payment instruments, standards and practices in place today. The following timetable gives an overview of the different end-dates set by the Regulation:

## TIMETABLE OF KEY END-DATES



\* if Member State option is applied

\*\* or 1 Feb 2016 (Member State option)

\*\*\* In non-euro countries, 31 Oct 2016 is the applicable end-date for most requirements listed in this table. For MIFs and balance of payment reporting, they are subject to the same end-dates as the eurozone.

### 2.3 WHO IS AFFECTED BY THE REGULATION?

All PSPs that offer euro credit transfer or direct debit services in at least one EEA country will be impacted by this Regulation. It is important to note that the Regulation will affect both the interbank space as well as all users of payment services, such as businesses, consumers and public authorities.

### 2.4 WHAT DOES THE REGULATION COVER?

The Regulation applies to all retail euro credit transfers and direct debits where the payment accounts of both the payer and the payee are located in the EEA.

The table below provides an overview of the Regulation with a short description for each Article.

### 2.5 WHICH PAYMENTS ARE OUT OF SCOPE? (ART. 1)

The Regulation does not apply to:

- payments where the payment account of the payer or the payee is located with a PSP outside of the EEA (“one-leg-out payments”) or both payment accounts are located outside the EEA;
- payment transactions carried out between and within PSPs (including their agents or branches) for their own account;
- credit transfers processed and settled through large-value payment systems (LVPS)<sup>3</sup>.
- direct debits channelled through LVPS, but only if the payer has explicitly asked for a particular direct debit transaction to be routed via such a system;
- transactions of money remittance;
- payment transactions transferring electronic money and payments through cards or via telecommunications or digital devices as long as they do not result in a credit transfer or direct debit involving a payment account.

<sup>3</sup> Large-value payment systems (LVPS), such as the Eurosystem’s TARGET2 and EBA CLEARING’s EURO1/STEP1, are systems that process, clear or settle single payment transactions of high priority and urgency, and primarily of large amount.

## THE SEPA MIGRATION END-DATE REGULATION AT A GLANCE

Section or Article	Main focus	Section or Article	Main focus
Recitals (1–38)	Background information and explanations about the purpose and objectives of the Regulation	Art. 6	<ul style="list-style-type: none"> <li>• End-dates for credit transfers and direct debits that do not comply with the technical requirements stipulated by the Regulation</li> <li>• End-dates for interchange fees for direct debits</li> </ul>
Art. 1	What the Regulation covers and which payments are out of scope	Art. 7	Legacy direct debit mandates/authorisations and related refund conditions will continue to be valid
Art. 2	Definition of the terminology used	Art. 8	Ban on per transaction multilateral interchange fees for direct debits and conditions for R-transaction MIFs, with similar effects for bilateral and unilateral arrangements
Art. 3	Reachability obligations for PSPs with regard to credit transfers and direct debits	Art. 9	PSUs will not be allowed to specify in which Member State the payment account of their counterparty should be located, as long as the account is reachable
Art. 4	Conditions for credit transfer and direct debit schemes and technical interoperability requirements for retail payment systems	Art. 10	Member States must designate competent authorities responsible for ensuring compliance with the Regulation
Art. 5	<ul style="list-style-type: none"> <li>• Requirements for PSPs and/or PSUs with regard to the use and/or provision of <ul style="list-style-type: none"> <li>• payment account identifiers and BIC</li> <li>• message formats</li> <li>• data elements</li> <li>• mandate-related information and consent</li> </ul> </li> <li>• Elimination of the BIC in the PSU-to-PSU and PSU-to-PSP space</li> <li>• Consumer protection obligations for PSPs with regard to direct debits</li> </ul>		

## 2.6 CHANGES TO REGULATION EC 924/2009 ON CROSS-BORDER PAYMENTS IN SUMMARY (ART. 17)

A number of changes have also been introduced in the Regulation on cross-border payments (EC 924/2009). Some of the changes are related to multilateral interchange fees, which are also covered in detail by the SEPA Migration End-Date Regulation.

The changes brought to Regulation 924/2009 are the following:

- The same price has to be applied for all corresponding cross-border and national payments in euro, since the existing threshold of EUR 50,000 is removed;
- National settlement-based statistical reporting of any value will be removed by 1<sup>st</sup> February 2016;
- The multilateral interchange fee of EUR 0,088 for cross-border direct debits will be prohibited from 1<sup>st</sup> November 2012;

- Any national multilateral interchange fee for direct debits will be prohibited from 1<sup>st</sup> November 2017;
- Only for R-transactions, a multilateral interchange fee will be permitted under specific conditions. The conditions regarding an R-transaction MIF are set by the SEPA Migration End-Date Regulation (see section 3.2.4) and will come into force by 1<sup>st</sup> February 2014.

Section or Article	Main focus
Art. 11	Member States must define penalties for any breaches of the Regulation rules (these penalties will not be applicable to consumers)
Art. 12	Member States have to put in place rules for alternative dispute resolutions and appoint responsible authorities
Art. 13	European Commission is empowered to adopt delegated acts in order to change the technical requirements defined in the Annex of the Regulation
Art. 14	Conditions for European Commission to use these delegated powers
Art. 15	Review of Regulation to be presented by European Commission by 1 <sup>st</sup> February 2017
Art. 16	Transitional provisions: <ul style="list-style-type: none"> <li>• A Member State can decide that certain requirements can come into force at a later stage</li> <li>• Later end-dates with respect to some provisions apply to euro transactions in non-euro Member States</li> </ul>

Section or Article	Main focus
Art. 17	Changes applied by this Regulation to Regulation EC 924/2009
Art. 18	Entry into force of the Regulation one day after its publication in the Official Journal of the European Union
Annex	Detailed list of technical requirements for credit transfers and direct debits, including: <ul style="list-style-type: none"> <li>• mandatory payment account identifier: IBAN</li> <li>• mandatory standard for message format: ISO 20022 XML</li> <li>• mandatory data elements</li> <li>• a minimum of 140 characters for remittance information</li> <li>• minimal (EUR 0.01) and maximal amount (EUR 999,999,999.99) of a transaction</li> </ul>

# 3 WHAT ARE THE KEY AREAS OF IMPACT OF THE REGULATION?

## 3.1 PAYMENT SCHEMES AND PROCESSING

### 3.1.1 END-DATE FOR LEGACY PAYMENT SCHEMES AND TRANSACTIONS (ART. 6 AND 16)

The Regulation stipulates that by 1<sup>st</sup> February 2014 retail credit transfers and direct debits denominated in euro will have to meet the scheme conditions and technical requirements defined in the Regulation.

#### EXCEPTIONS

- EEA Member States in the eurozone will be allowed to expand this deadline until 1<sup>st</sup> February 2016 for
  - legacy niche products with a cumulative market share of less than 10 percent of the total national credit transfers or direct debits;
  - direct debits initiated through a payment card at the point of sale (e.g. the German “Elektronisches Lastschriftverfahren”).
- In EU Member States that have not (yet) adopted the euro, payment services in euro will have to meet the scheme conditions and technical requirements by 31<sup>st</sup> October 2016. If a Member State joins the eurozone before 31<sup>st</sup> October 2015, its payment services will have to become compliant within one year.

### 3.1.2 UNIFORM CONDITIONS FOR REGULATION-COMPLIANT PAYMENT SCHEMES (ART. 4)

To ensure the EEA-wide use of uniform schemes by a majority of PSPs, credit transfer and direct debit schemes will be required to have

- the same rules for national and cross-border transactions within the EEA, and
- participants that represent a majority of the PSPs offering credit transfers or direct debits, respectively, within a majority of EU Member States and that constitute an overall majority of PSPs within the EU.

#### EXCEPTIONS

- For Business-to-Business schemes, only those Member States where such schemes are offered and only those PSPs participating in such schemes will be taken into account in establishing whether the majority conditions are met.
- Newly developed retail schemes can be granted an exemption from these majority conditions for up to three years. If such a new entrant scheme has participants in at least eight Member States, it is in a position to apply for a temporary exemption in the Member State where the scheme owner or a leading participant is based. Another condition for this temporary exemption is that this newly developed scheme has the potential to become a pan-European scheme and also contributes to improved competition or promotes innovation.

### **3.1.3 TECHNICAL INTEROPERABILITY BETWEEN PAYMENT SYSTEMS (ART. 4 AND 16)**

The Regulation makes it mandatory for euro retail payment systems within the EEA to be technically interoperable from 1<sup>st</sup> February 2014. The payment system operator or (in its absence) the participants will be responsible for ensuring the system's technical interoperability through

- using common standards developed by international or European standardisation bodies; and
- not adopting any business rules that would restrict interoperability with other retail payment systems in the EEA.

#### **EXCEPTIONS**

- In Member States that do not have the euro as a national currency, euro payment systems only have to comply with the interoperability requirement by 31<sup>st</sup> October 2016.
- If an EU Member State adopts the euro before 31<sup>st</sup> October 2015, its euro payment systems have to fulfil the interoperability requirement within one year (but only if this deadline is later than the date set for the existing eurozone countries).

### **3.1.4 EEA-WIDE REACHABILITY REQUIREMENT FOR PSPs (ART. 3 AND 16)**

A PSP that is reachable for national credit transfers and/or direct debits has to be reachable for euro cross-border credit transfers and/or direct debits from any other EEA Member State. This reachability requirement includes the need to adhere to an EU-wide credit transfer and/or direct debit scheme meeting the requirements of the Regulation. In practice, this means that PSPs should adhere to the EPC's SCT Scheme and/or SDD Core Scheme. PSPs should have established this reachability by the time the Regulation entered into force (i.e. by 31<sup>st</sup> March 2012).

#### **EXCEPTIONS**

- In Member States that do not have the euro as a national currency, PSPs only have to comply with the reachability requirement by 31<sup>st</sup> October 2016.
- If an EU Member State adopts the euro before 31<sup>st</sup> October 2015, PSPs have to establish reachability within one year.

### 3.1.5 TECHNICAL REQUIREMENTS (ART. 5 AND ANNEX)

PSPs will have to process payments in line with the rules stipulated by the Regulation and the technical requirements in the Annex. The key rules to be met are the following:

- In the interbank space, PSPs will have to send and receive both domestic and cross-border euro retail credit transfers and direct debits in message formats using the ISO 20022 XML standard;
- PSPs will have to ensure that, once the required data is available in electronic form, payment transactions shall allow for fully automated, electronic processing, i.e. processing that requires no manual intervention. The same rule also applies to exception handling whenever possible;
- The Regulation defines mandatory data elements that have to be sent (on) to the different parties along the payment chain. All mandatory data elements, including up to 140 characters of reference information, will have to be passed on in full and without alteration;
- No setting of a minimal amount per transaction is allowed, but PSPs are not obliged to process a transaction where the amount is 0; there is no obligation for payment schemes to handle payments with an amount beyond EUR 999,999,999.99.

The Regulation also defines mandatory data elements, checks or processes to be provided or executed in the PSU-to-PSP space, in the interbank space or in the PSP-to-PSU space. These mandatory items in some cases constitute additional obligations for PSPs, since not all of them are mandatory under the current EPC Scheme Rulebooks.

For details on the technical requirements affecting PSUs and the relationship between PSUs and PSPs, please consult section 3.2.

- So far, the EPC SEPA Schemes are the only schemes expected to fulfil the payment scheme conditions set by the Regulation, which means that these Schemes will replace the national credit transfer and direct debit schemes on the migration end-date and will need to be used by PSPs for the processing of transactions covered by the Regulation. This will have the following implications:
  - PSPs that are reachable for national credit transfers and/or direct debits today must ensure they are also reachable for transactions under the respective EPC SEPA Scheme(s). PSPs located in the eurozone should be aware that the reachability requirement came into force on 31<sup>st</sup> March 2012.
  - By 1<sup>st</sup> February 2014 at the latest, PSPs should have changed their IT systems to ensure that their domestic payment traffic can be processed as efficiently via the Regulation-compliant SEPA channels as via today's national channels. This includes the capability to handle their full existing domestic retail volumes in ISO 20022 XML formats in the interbank space.
- PSPs should prepare for the implementation of additional Rulebook changes, which may be necessary to make the EPC Schemes fully Regulation-compliant.
- Member States will have to decide before 1<sup>st</sup> February 2013 whether they intend to keep in place for a further period any credit transfer or direct debit instruments that qualify as niche products or as direct debits initiated through the use of a payment card at the point of sale. If a community opts for the use of niche products, it will have to keep the legacy system(s) processing these products up and running until 1<sup>st</sup> February 2016 at the latest.

### 3.2 PROCESSES OF/BETWEEN PSUs AND PROCESSES BETWEEN PSPs AND PSUs<sup>4</sup>

#### 3.2.1 USAGE OF IBAN AND “BIC ONLY WHERE NECESSARY” (ART. 5 AND 16, ANNEX)

The Regulation enforces IBAN as the only required account identifier for retail credit transfers and direct debits in euro. It stipulates that PSUs will have to communicate their IBAN and, where applicable for a transition period, the BIC of their PSP to their counterparties as follows:

- Payees accepting credit transfers must provide payers with their IBAN and, “only where necessary”, with the BIC of their PSP;
- Payers accepting direct debits must provide payees collecting these direct debits with their IBAN and, “only where necessary”, with the BIC of their PSP.

The obligation to provide the BIC to counterparties ends on 1<sup>st</sup> February 2014 for national payments and on 1<sup>st</sup> February 2016 for cross-border payments. Member States may choose to extend the requirement to provide the BIC for national transactions un-

til 1<sup>st</sup> February 2016. It is important to note that after these respective dates PSPs can no longer require that PSUs have to provide the BIC of their counterparty's PSP, only the IBAN will be mandatory. If the BIC has not been provided by the initiating PSU, his/her PSP may, for example, need to use some form of directory or database to identify the correct BIC, since the BIC remains mandatory in the interbank space, if nothing else has been agreed.

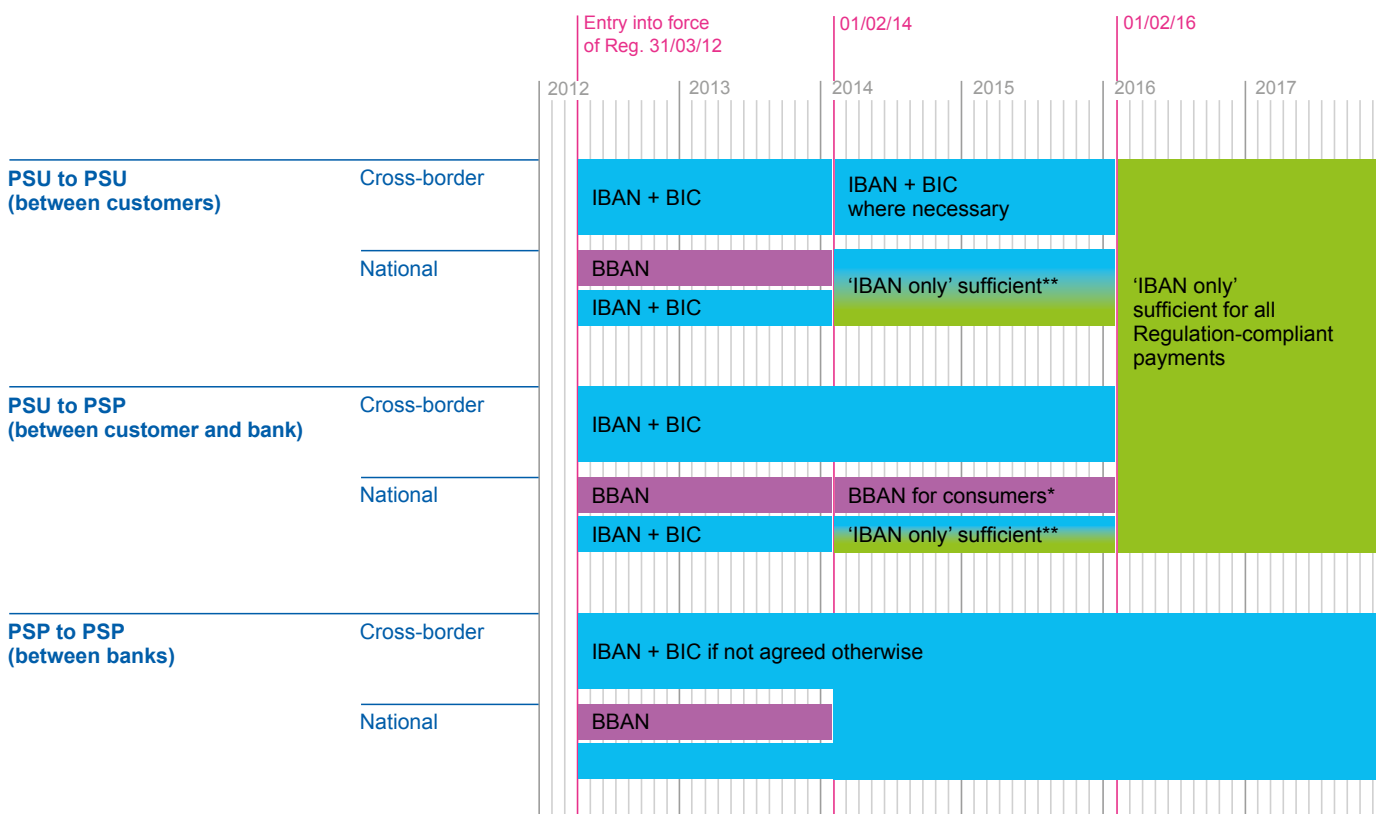
Member States may also allow their PSPs to offer BBAN-IBAN conversion services for national transactions to consumers until 1<sup>st</sup> February 2016. Where PSPs offer such services, they are required to carry out the conversion service free of charge and supply the initiating PSUs with the IBAN of their counterparty.

In the interbank space, PSPs are required to communicate both IBAN and BIC of the receiving PSU, but the Regulation allows the PSPs to agree not to provide the BIC.

The table below gives an overview of the timelines applying to the different requirements and options concerning the provision of account identifiers and BIC:

<sup>4</sup> All requirements in Art. 5 will only apply to euro payment services in non-euro Member States by 31<sup>st</sup> October 2016. If an EU Member State adopts the euro before 31<sup>st</sup> October 2015, the requirements must be fulfilled within one year (provided this deadline is later than the date set for the existing eurozone countries).

### TIMETABLE: COMMUNICATION OF ACCOUNT NUMBERS AND BIC



\* Member State option allows BBAN-IBAN conversion until Feb 2016

\*\* Member State option allows use of BIC in national transactions until Feb 2016



### 3.2.2 USAGE OF MESSAGE FORMATS BASED ON ISO 20022 XML STANDARD (ART. 5 AND 16, ANNEX)

When customers (e.g. corporates or public administrations) send or receive payments bundled together into files for transmission, their PSPs have to ensure that they use message formats based on the ISO 20022 XML standard from 1<sup>st</sup> February 2014 on.

#### EXCEPTIONS:

- Microenterprises or consumers sending or receiving payment files are not obliged to use message formats based on the ISO 20022 XML standard.
- Member States are allowed to waive this message format requirement for all PSUs that are not microenterprises or consumers until 1<sup>st</sup> February 2016.

It is important to note that PSPs must ensure they are ready to send and receive ISO 20022 XML messages to and from PSUs from 1<sup>st</sup> February 2014 regardless of whether the above-mentioned Member State waiver has been applied in their country. The reason is that PSPs are obliged to send or receive payments in the new message formats from this date on if this is specifically requested by a PSU.

The Regulation does not include any statements about conversion services in relation to the requirement for corporate PSUs and public authorities to use ISO 20022 XML message formats. It is assumed that the policy objective behind this rule is that in the long term all customers using file communication should replace their current legacy formats and only use the ISO 20022 XML standard.

However, as long as the ISO 20022 XML formats have not replaced other existing formats used at customer level today, corporates in particular might prefer to use the existing formats for generating their payments in an efficient manner; some may want to rely on conversion services to create Regulation-compliant files for their European retail transactions in euro. PSPs should consider how they can optimally support customers in complying with this requirement.

### 3.2.3 HANDLING OF DIRECT DEBITS, MANDATES AND MANDATE-RELATED INFORMATION (ART. 5 AND 7)

For the processing of direct debits, the Regulation introduces a number of mandatory requirements:

- The mandate-related information (MRI) has to be sent from the payee to the payee's PSP and from the payee's PSP to the payer's PSP with each direct debit collection.
- The payer's consent to a direct debit has to be communicated both to the payee and to the payer's PSP. The latter has to receive this consent either directly from the payer or indirectly through the payee, e.g. through the mandate-related information that is sent to the payer's PSP as part of the direct debit collection.
- The mandate has to be stored by the payee or by a third party on behalf of the payee.
- The payee's PSP is responsible for ensuring that
  - the consent has been communicated to both the payee and the payer's PSP;
  - the mandate is stored by the payee (or by a third party on behalf of the payee).
- Payers who are consumers have the right to request certain protective measures to be applied to direct debits. In detail, consumers may instruct their PSP to:
  - limit direct debit collections to a certain maximum amount and/or periodicity;
  - check, before execution, the amount of each direct debit collection against the amount present in the mandate-related information – this only applies in cases where the underlying direct debit scheme (e.g. a possible future Fixed Amount Scheme) excludes a refund right;
  - totally block their account for direct debits;
  - block their account for direct debits coming from one or more specified payees ("black list");
  - only allow direct debits from one or more specified payees ("white list").
- The payer's PSP has to ensure that the payer is properly informed about the possibility to make these instructions (in line with PSD Articles 41 and 42).
- Where protective instructions have been given by a consumer, the payer's PSP has to check incoming direct debits against these restrictions before debiting the payer's account and apply these restrictions accordingly. In addition, the PSP has to check the amount and the periodicity of a direct debit collection against the MRI in those cases where the framework contract between the payer's PSP and the payer excludes a refund right (see Art. 62(3) of the Payment Services Directive for details).

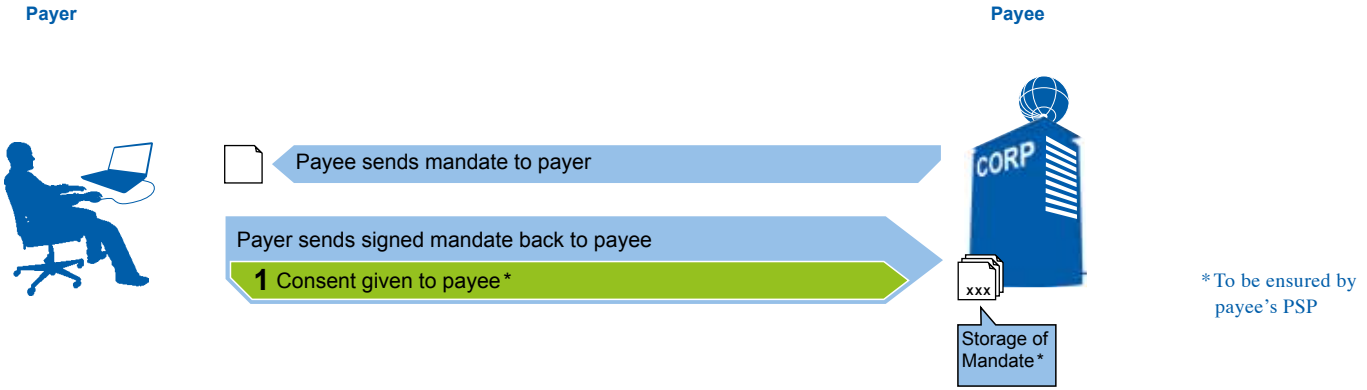
The following illustrations give a detailed overview of the consent process and the checks to be conducted by the payer's PSP as part of the direct debit collection process.

DIRECT DEBIT PROCESS FOR COMMUNICATION OF CONSENT, CHECKS AND COLLECTION

COMMUNICATION OF CONSENT TO PAYEE

The first illustration focuses on the issuing and handling of the mandate by the payee and the payer:

- By signing and returning the mandate that the payee sends to the payer, the payer expresses his/her consent to the conditions in the mandate and to being debited in line with these conditions [1];
- The payee or a third party acting on behalf of the payee has the obligation to store the mandate.

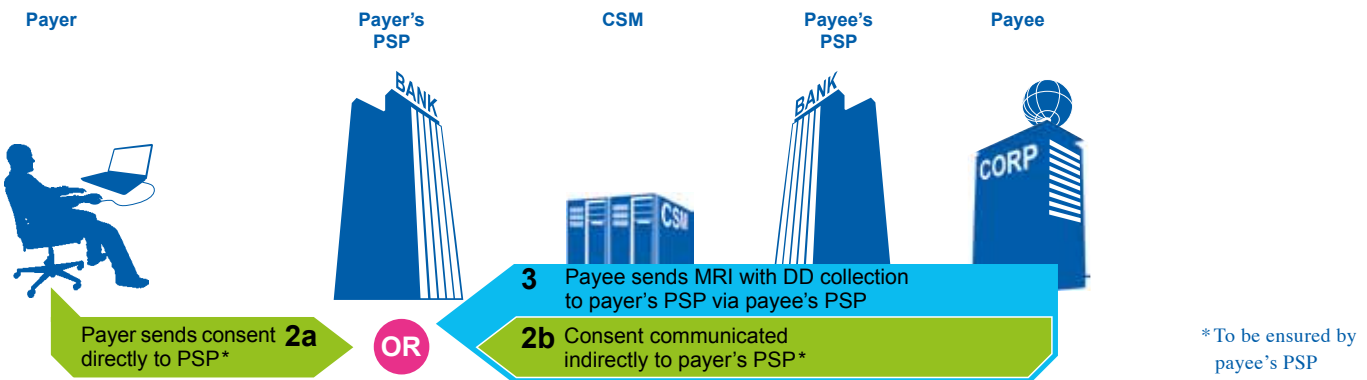


COMMUNICATION OF CONSENT TO PAYER'S PSP [2] AND SENDING OF DIRECT DEBIT COLLECTION [3]

The second illustration focuses on the obligation to communicate the payer's consent to the payer's PSP. There are two possible ways to meet this obligation:

- The payer either has to give this consent directly to his/her PSP [2a];
- Or the consent is given indirectly through the payee [2b]. This is implicitly achieved through the sending of the mandate-related information (MRI) to the payer's PSP as part of the direct debit collection [3].

The Regulation makes it mandatory to send the MRI with each direct debit collection and the same requirement is part of the SDD Core Scheme Rulebook. It is assumed that [2b] will be the more commonly used solution for ensuring that the payer's PSP receives the payer's consent.

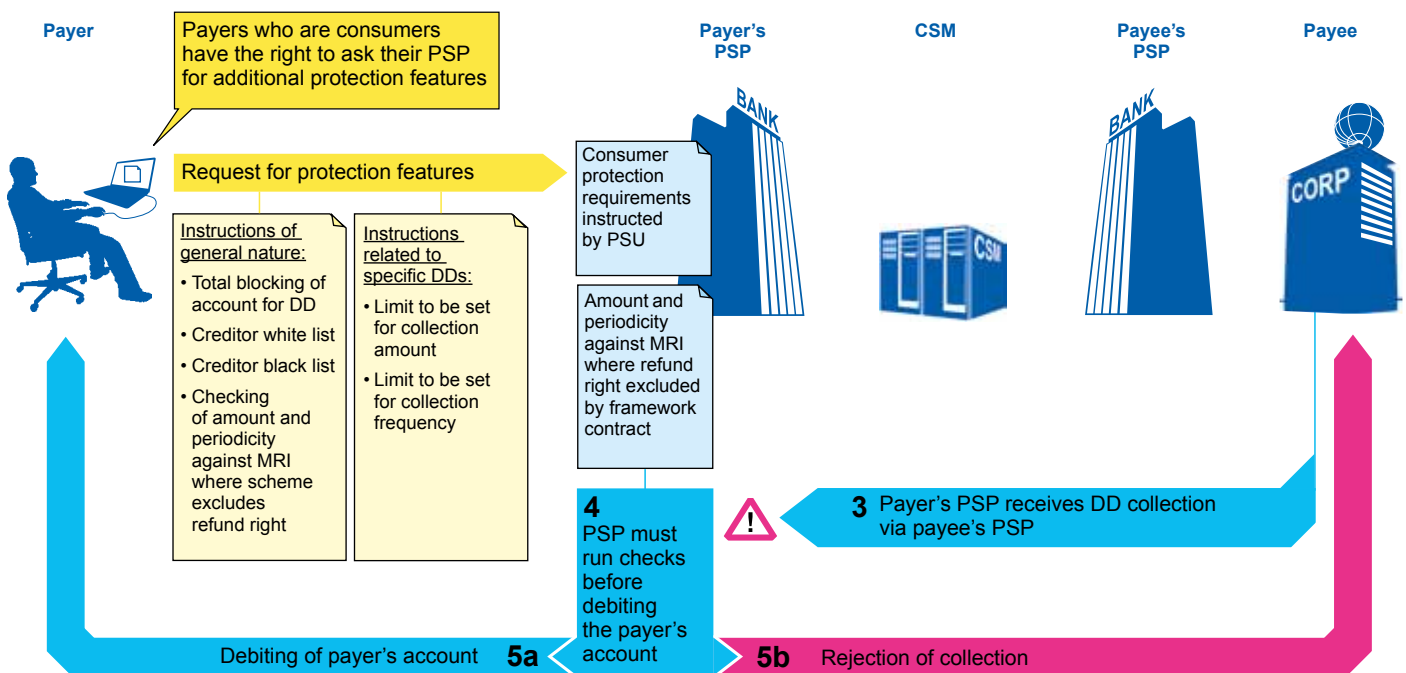


**CHECKS 4 AND DEBITING 5a OF PAYER'S ACCOUNT OR REJECTION 5b**

The third illustration focuses on the additional consumer protection features that the payer has the right to ask his/her PSP to implement:

- The payer can instruct very general restrictions, such as the total blocking of his/her account for direct debits. The payer can also instruct restrictions that are related to specific direct debits, such as a limit to be set for the amount of each collection related to a specific mandate;

- When the payer's PSP receives the direct debit collection including the MRI 3, it has to check whether any of the protection features set by the PSU have to be applied to this transaction and act accordingly. If the collection relates to a direct debit where a consumer is involved and a refund right has been excluded in the framework contract between the payer's PSP and the payer [see PSD Art. 62(3) for details], the PSP also has to additionally check the amount and frequency indicated in the collection against the MRI provided;
- Once these checks have been carried out and depending on their outcome, the payer's account will either be debited in line with the EPC Scheme Rulebook timelines or the collection will be rejected.



**VALIDITY OF LEGACY MANDATES IS ENSURED (ART. 7)**

The Regulation ensures that mandates for recurring direct debits originally signed under a legacy scheme can continue to be used as a basis for Regulation-compliant direct debits: where there are no national laws or customer agreements in place to ensure this continuity, the Regulation stipulates that authorisations that have been given to a payee prior to 1<sup>st</sup> February 2014 based on any legacy schemes will remain valid beyond that date for recurring direct debits.

If such legacy mandates provide for unconditional refunds and refunds backdated to the date of the refunded payment, these conditions must still continue to apply as well.

Even if a legacy mandate is used, the payee must be able to provide all the information necessary to create a Regulation-compliant direct debit collection. If some data elements are missing in the legacy mandate, then these must be added.

### **3.2.4 BAN OF MULTILATERAL INTERCHANGE FEES FOR DIRECT DEBITS (ART. 8)**

Per transaction multilateral interchange fees (MIFs) for direct debit collections will have to be phased out:

- by 1<sup>st</sup> November 2012 for cross-border direct debits;
- by 1<sup>st</sup> February 2017 for national direct debits

Similar interchange fee arrangements that are of unilateral or bilateral nature will also be impacted by the Regulation.

In case a direct debit cannot be properly processed, e.g. because of lack of funds, revocation etc., PSPs will be allowed to apply a MIF to the resulting R-transaction under the following conditions:

- The MIF arrangement is geared at allocating costs to the PSP (or the PSU) that has caused the R-transaction;
- The fee is strictly cost-based and is not higher than the actual cost that such a transaction would cause at the level of the most cost-efficient comparable PSP among the relevant parties involved in the arrangement;
- No additional fees are charged to the PSU in relation to the costs this R-transaction fee is intended to cover;
- There is no practical alternative to this arrangement that would be as efficient but cheaper for customers.

It is important to note that the rules for R-transaction MIFs come into force by 1<sup>st</sup> February 2014.

### **3.2.5 PAYMENT ACCESSIBILITY (ART. 9)**

Since the entry into force of the Regulation on 31<sup>st</sup> March 2012, a PSU is no longer allowed to determine that the payment account of its counterparty must be located in a specific Member State, as long as the payment account of the counterparty is reachable. In detail, the Regulation mandates the following:

- A payer making a credit transfer within the EEA is not allowed to request that the payee's payment account has to be located in a specific Member State;
- A payee accepting a credit transfer or using a direct debit to collect funds from a payer within the EEA is not allowed to request that the payer's payment account has to be located in a specific Member State.

### **3.2.6 EQUALITY OF CHARGES FOR ALL TRANSACTIONS COVERED BY THE REGULATION (ART. 17)**

The SEPA Migration End-Date Regulation has also changed Regulation EC 924/2009 and extended the equality of charges requirement to payment transactions with an amount above EUR 50,000. This means that since 31<sup>st</sup> March 2012, a PSP has to charge the same fee for a cross-border transaction as for a corresponding national transaction and this rule has to be applied to any credit transfer and direct debit in euro, regardless of the amount of the transaction.

It is important to note that the equality of charges requirement also applies to euro credit transfers and direct debits channelled through large-value payment systems. In detail, PSPs have to offer the same pricing for a cross-border transaction sent via a LVPS as for a corresponding national transaction sent through the same channel.

The SEPA Migration End-Date Regulation will have a significant impact on the euro payment-related processes between PSUs as well as between PSUs and PSPs, since the focus of the Regulation covers end-to-end processing. There will be a considerable need for information and training at the level of the customers and within the PSPs' organisations. PSPs should analyse and decide what role they wish to play in this information and educational campaign and they need to train their own staff accordingly.

The following points require particular action and communication at the level of the PSPs:

MIGRATION TO 'IBAN-ONLY'

- PSPs should inform their customers, especially consumers, about the replacement of BBAN with IBAN (and BIC) in a clear and comprehensive manner and take the necessary actions to make this migration as easy as possible on the customers.
- PSPs should recommend to their corporate customers to provide both IBAN and BIC to their counterparties until 1<sup>st</sup> February 2016 at least, since it will be difficult for a PSU to assess whether or not its counterparty may need the BIC to initiate a payment.
- Customers should be made aware of the fact that they cannot rely on an 'IBAN-only' approach outside Europe: to initiate or receive international euro transactions, i.e. transactions where one or both payment accounts are located outside the EEA, customers will still need to communicate IBAN and BIC to the relevant parties.
- It is recommended for PSPs to get ready to process 'IBAN-only' instructions from 1<sup>st</sup> February 2014 on. As part of their preparations, PSPs may need to consider using a BIC directory or some other means – such as databases at a national level – to make sure they can derive the correct BIC and accurately route any transaction they send. Work is ongoing at a national and EEA level to analyse and create solutions for the issues that the 'IBAN only' requirement will cause.

## SENDING AND RECEIVING ISO 20022 XML MESSAGE FORMATS

- From 1<sup>st</sup> February 2014 on, PSUs will be able to specifically request the use of ISO 20022 XML message formats for payment transactions they send or receive. This means that PSPs must ensure they are ready to send and receive ISO 20022 XML messages to and from PSUs from that date on.
- Corporates and public authorities must be informed by their PSPs that the ISO 20022 XML format must be used when sending or receiving files. These customers must use the new format or arrange for a conversion of their files, if necessary, to ensure compliance with the Regulation by 1<sup>st</sup> February 2014, unless the eurozone Member States in which they operate decide to apply the Member State waiver postponing this requirement until 1<sup>st</sup> February 2016. Note: Multinational corporates may need to prepare for 1<sup>st</sup> February 2014 in any event, as not all countries that they operate in may decide to use this waiver.
- PSPs should discuss with their customers to determine how they can best support them in an efficient manner in the move to using ISO 20022 XML. Third party providers that are able to meet the requirements of the Regulation should consider which conversion services they would like to offer to corporate customers and public authorities that want to continue relying on existing formats.
- It is important to note that the transaction resulting from a conversion can only be Regulation-compliant if it contains all the necessary data elements required by the Regulation.

## PROCESSING OF DIRECT DEBITS

- The new direct debit instruments are very different from many of the national direct debit schemes in place today. This is why there has to be a major educational effort at the level of all parties involved, which PSPs should contribute to as they are located at the heart of the payment transaction:
  - PSPs can support trade associations, IT vendors and other organisations in preparing corporate customers and public authorities for the handling of the new direct debit instruments. Payees in particular should be informed about their new obligations in a clear and comprehensive manner.
  - PSPs should also ensure that retail customers in particular are informed about the changes the new direct debit instruments will hold for them. The most important change is that they will have the right to request specific protection measures. PSPs should inform their customers about these new rights in a clear and detailed way, as required by Art. 41 and 42 of the Payment Services Directive.

- The payer's PSP will have to take a number of steps towards implementing the additional consumer protection measures:
- The PSP must put in place the functionalities needed to allow both the PSP itself and the customer to carry out their respective tasks related to the capturing, storing and changing of the customer's instructions.
- If so requested by the PSU, the PSP must set up the necessary checks to be conducted on incoming direct debit collections against these instructions, before the customer's account is debited. In this context, the PSP will have to decide and include in its framework contract how it will deal with cases where stored direct debit instructions conflict with data included in incoming direct debit collections.
- The payee's PSP will have to ensure that the payer's consent is given to the payee and to the payer's PSP as well as that the mandate is properly stored by the payee:
- The payee's PSP should make sure that these obligations are properly reflected in the framework contract between the payee's PSP and the payee.
- PSPs may also want to consider offering additional support to payees in handling their mandate management and storage.

## PAYMENT ACCESSIBILITY

PSPs may want to inform their customers that it is no longer allowed for PSUs to specify the location of their counterparty's payment account with regard to making and receiving payments within the EEA. As a consequence, payees can no longer insist that the payer holds an account in a specific Member State.

Once any remaining hurdles have been removed, PSUs will finally only need one payment account for all their payment business within Europe, which is expected to have a significant long-term effect.

## PRICING REVIEW

Some PSPs may need to review their payment pricing because of the abolishment of the EUR 50,000 threshold with regard to the equality of charges requirement. This change applies both to payments in scope of the Regulation and payments sent through euro large-value payment systems.



## 4 SOME MYTHS AROUND THE REGULATION

### Myth 1:

THE SEPA MIGRATION END-DATE REGULATION COVERS ALL RETAIL CREDIT TRANSFERS AND DIRECT DEBITS IN THE EEA.

### Response:

No, the new Regulation only covers euro retail credit transfers and direct debits in the EEA – all other currencies are out of scope.

### Myth 2:

THE SEPA MIGRATION END-DATE REGULATION IS ONLY APPLICABLE TO PAYMENTS UP TO EUR 50,000.

### Response:

No, the Regulation applies to all retail euro credit transfers and direct debits from EUR 0.01 to EUR 999,999,999.99 where both accounts are located within the EEA.

However, it is important to note that the SEPA Migration End-Date Regulation makes a distinction between retail transactions and transactions processed via large-value payment systems (LVPS): euro transactions sent through LVPS are out of scope of the Regulation while euro retail transactions are covered by the Regulation.

Here are two practical examples for illustration of the above explanation:

1. An urgent credit transfer with an amount of EUR 500 sent via a large-value payment system such as TARGET2 or EURO1 does not fall under the Regulation.
2. A credit transfer with an amount of EUR 450,000 sent via a retail payment system such as a SEPA Clearing and Settlement Mechanism (CSM) falls under the Regulation.

### Myth 3:

THE EQUALITY OF CHARGES PRINCIPLE ONLY APPLIES TO EURO RETAIL TRANSACTIONS.

### Response:

No, the equality of charges principle in Regulation 924/2009 applies to euro credit transfers and direct debits within the EEA of any amount, regardless of the kind of payment system they are sent through.

The SEPA Migration End-Date Regulation has changed Regulation 924/2009 by removing the limit of EUR 50,000 for the equality of charges principle. But it has not touched on the general definition of the scope of this Regulation. As a consequence, the scope of Regulation 924/2009 is larger than the one of the SEPA Migration End-Date Regulation in the respect that it also covers transactions of any amount sent through large-value payment systems (LVPS).

This means that a PSP must have the same pricing for its corresponding cross-border and national euro retail payments as well as the same pricing for its corresponding cross-border and national LVPS transactions (which will very probably be different from the PSP's retail transaction pricing though).

Here is a practical example to illustrate the above explanation:

### Price List of Bank A

National retail transactions in euro:	EUR x
Cross-border retail transactions in euro within EEA:	EUR x
National urgent single transactions in euro:	EUR y
Cross-border urgent single transactions in euro within EEA:	EUR y



## 5 CONCLUSION

### Myth 4:

EVERY NATIONAL CREDIT TRANSFER OR DIRECT DEBIT PRODUCT WITH SPECIAL FEATURES THAT ARE VALUABLE TO THE COMMUNITY CAN BE MADE A NICHE PRODUCT.

### Response:

No, the rules around this topic are more complex than that.

It is true that the competent authority of a Member State can decide (before 1<sup>st</sup> February 2013) which product should become a niche product. However, this exception is only allowed for

- products with a rather small market share (less than 10 percent of the cumulative market share of the total national credit transfers or direct debits respectively); and
- a period of two years, which means that all niche products will have to be phased out by 1<sup>st</sup> February 2016.

### Myth 5:

THERE IS NO NEED FOR PSPs TO IMPLEMENT THE FULL SET OF CONTROLS FOR DIRECT DEBIT CUSTOMERS AS IT IS LISTED IN THE REGULATION. AFTER ALL, PSUs CAN SIMPLY RETURN THE DIRECT DEBIT INSTEAD IF SOMETHING IS WRONG.

### Response:

No, customers have the right to instruct their PSP to activate specific direct debit protection measures. They must be given the possibility by their PSP to exert this right and, for instance, limit a direct debit collection to a certain amount or frequency.

As an example, a customer may want to limit collections for a phone subscription to a certain amount per month, such as EUR 50. If a collection comes for a higher amount, such as EUR 60, the bank must reject the collection and is not allowed to debit the account and then later return the money.

Implementing the requirements of the SEPA Migration End-Date Regulation is a complex undertaking. It will require considerable investments at the level of PSPs, corporate PSUs and public authorities, in particular, and it will also require a concerted effort of all market players and of the different departments within the organisations concerned.

This effort should significantly contribute to the creation of an internal market for electronic payments, where there is no longer any distinction between cross-border and national payments. The integrated European payments landscape is expected to efficiently support the overall economy and to serve as a basis for innovative developments: “The success of SEPA is very important economically and politically. SEPA is fully in line with the Europe 2020 strategy which aims at a smarter economy in which prosperity results from innovation and from the more efficient use of available resources.” [Recital (2) of the Regulation]

The SEPA Migration End-Date Regulation has set a number of ‘expiration dates’ that will put an end to the specific national ways millions of transactions are processed across Europe today. But it is, above all, a starting point: by helping to shape the SEPA reality, the Regulation will pave the way for a new generation of efficient and innovative payment services such as pan-European e-payment products, which only a fully integrated euro payments landscape will make possible.

# ANNEXES

## REFERENCES

The entire text (in English) of the SEPA Migration End-Date Regulation can be found at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:094:0022:0037:EN:PDF>

The entire text (in English) of Regulation EC 924/2009 on cross-border payments in the Community is available at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:266:0011:0018:EN:PDF>

The entire text (in English) of the PSD can be downloaded at:

[http://eur-lex.europa.eu/LexUriServ/site/en/oj/2007/l\\_319/l\\_31920071205en00010036.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2007/l_319/l_31920071205en00010036.pdf)

## THE WEBSITES OF THE MAIN EUROPEAN BODIES ARE:

European Central Bank  
[www.ecb.eu](http://www.ecb.eu)

European Commission  
[www.ec.europa.eu](http://www.ec.europa.eu)

The dedicated payments section on the website of the European Commission can be found at:

[http://ec.europa.eu/internal\\_market/payments/index\\_en.htm](http://ec.europa.eu/internal_market/payments/index_en.htm)

European Payments Council  
[www.europeanpaymentscouncil.eu](http://www.europeanpaymentscouncil.eu)

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