

Mr. Gerard Hartsink
Chair
European Payments Council
Avenue de Tervueren 12
1040 Brussels

03.05.2007 D/001026

Dear Mr Hartsink,

Thank you for your letter of 9th March 2007 reporting on progress made by the EPC in the run-up to the operational launch of SEPA (Single Euro Payments Area).

I appreciate the excellent work already carried out by the EPC. With the SEPA rule-books and testing arrangements in the final stages of development, I believe significant steps have been made towards the successful implementation of SEPA.

From our side I am also pleased to report positive progress and in particular, the unanimous political agreement on the Payment Service Directive reached by ECOFIN on 27th March. As co-legislator, Parliament too must now vote on this compromise text. I am confident that at its plenary meeting in the 23rd – 26th April session, Parliament will be able to endorse the text. The prospects of a first reading adoption of the PSD are now excellent.

While I wholeheartedly acknowledge the significant progress achieved by industry, I would like to take this opportunity to highlight a number of issues where further work is needed.

Scheme Governance

As you know from previous discussions, the Commission attaches very great importance to the future governance arrangements for the European payments market and SEPA in particular. If users cannot participate effectively in these governance arrangements, then it is not at all clear that the current and future needs of users will be adequately met on a timely basis. The importance of proper stakeholder consultation is a key point which the EPC itself recognises in its own Crowne Plaza declaration¹.

¹ "SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities (consumers, SMEs, merchants, corporates and government bodies) and supportive public authorities."

I understand that the EPC is currently consulting its members on a number of proposals. I sincerely hope that the outcome of this work will provide real transparency to all stakeholders.

Additional Optional Services (AOS)

AOS will play an important role in the future European payments market and are vital for the SEPA business case of many institutions. However, in our view the current industry approach leaves some residual concerns. In particular, we would like to see the EPC approach go beyond acting as a simple repository for AOS and instead directly address the "underlying interoperability" and "best of breed" issues. There is a clear need for many communities to have current service levels for AOS matched in SEPA. Otherwise successful migration by these communities will be threatened. I therefore expect the EPC to provide the industry with a clear framework for the development of AOS (outside the SEPA core services) which addresses the need for interoperability and prevents renewed fragmentation.

SEPA Direct Debit Scheme

I note your comments about the varying views held by banks with regard to a second mandate submission model. However, this remains an important subject for some Member States. In the absence of the second mandate submission model or some alternative solution, it is not clear how successful migration can take place. I am therefore pleased that the EPC has decided to undertake further work on this issue.

SEPA cards

The Commission has concerns with regard to recent developments in the cards market and to complaints over price increases linked to SEPA. My colleague, Neelie Kroes, may wish to address some of these competition concerns through anti-trust measures. But I also see a strong role for the EPC in this area. Strengthening the SEPA cards framework by the inclusion of common card standards and scheme rules could help obviate some of these competition concerns.

Long-term SEPA migration

The EPC should clarify the "end-game" for phasing out legacy domestic services and achieving full migration to SEPA services. This has been strongly requested by market players. I understand that the costs of running two parallel sets of services can be significant. I would therefore expect that the EPC, in co-operation with regulators, draw up a realistic and clear plan to provide industry and users with certainty over the timetable.

Role of Public Administrations

The Commission has long recognized the important role public administrations can play in SEPA migration, subject to the respect of the non-deterioration principle. As last year, we will continue to give prominence to this issue through the various fora (e.g. FSC, EFC). In particular, as you are aware, on the 8th May I am hosting a major conference to draw the attention of public administrations to the benefits of SEPA and to encourage them to begin their preparations for early SEPA adoption.

Communication

Finally, I would like to stress the importance of a proper Communication programme for SEPA. My services look forward to continuing our cooperation with the EPC and the ECB in the development of such a programme. Once the PSD has been adopted, we will be in a better position to launch this programme.

Let me end by assuring you of our continuing support.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Charlie', with a long, sweeping horizontal stroke extending to the right.

Charlie McCreevy