EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

Letter EPC076-07
Version 0.5

06 September 2007

For the attention of: All banks and banking associations in SEPA

Re: Addendum to the Open letter of 31 May 2007 to all SEPA banks planning to adhere to the SEPA Credit Transfer Scheme

Dear all,

We distributed our Open Letter to all banks through our EPC Members and through banking associations (reference Letter EPC050-07). This letter aimed to clarify a number of issues around achieving operational readiness for the launch of the SEPA Credit Transfer (SCT) services by banks, planned for 28 January 2008. Other than the change in launch date to 28 January 2008 which was approved by the Plenary meeting on 19 June 2007, all other recommendations and clarifications contained in the letter remain valid.

Since the publication of our Open Letter, we have finalised the Scheme Management Internal Rules and we published on the EPC website (www.europeanpaymentscouncil.eu) the document EPC125-07, entitled Guide to the Adherence Process for the SEPA Credit Transfer Scheme ("The Guide"). This document is intended to assist banks throughout SEPA to complete their adherence application to the SCT Scheme in a timely manner.

During the completion of the Guide, two issues were raised which deserve clarification being made available to all SEPA banks, and this Addendum to the Open Letter to all SEPA banks aims to provide this. This letter also addresses the time window for adherence to the SCT Scheme, with a call to banks to aim to adhere soon after the opening of the window and not wait till the last moment. Our Guide contains a detailed timetable which includes the start and end dates for adhering.

The two issues addressed in this letter are:

1. The obligations to be able to receive and originate SCT payments
2. Readiness of a multi-country bank for **all** its branches:

   There is a real risk that some large multi-country banks using more than one platform may not be able from a compliance perspective to adhere until 100% of their branches achieve full readiness, i.e. being able not only to receive SCT payments but also to originate them. If this were to happen, it would impact the ability to achieve critical mass quickly.

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The obligations to be able to receive and originate SCT payments

Our SCT Rulebook version 2.3 unambiguously states in Section 5.3 *"Each Participant shall offer services relating to the Scheme in the capacity of both Originator Bank and Beneficiary Bank*".

Section 5.4 states that in order to be eligible as a Participant, a Participant must at all times "*be active in the business of providing banking and/or payment services to Customers ..*".

The following *in italics* is a paragraph from our 31 May 2007 Open Letter, with **two modifications shown in bold**); this reworded paragraph replaces the one from the Open Letter. *"Accordingly, all Scheme Participants* **known to be** *part of the group of institutions whose combined volume represents critical mass (the vast majority of the volume of euro credit transfers as determined by your community), are expected to be in a position to originate SCT transactions from* **28 January 2008**. *Other institutions falling outside this group are expected to be in a position to originate SCT transactions for their customers (assuming they conduct such business) during the course of 2008."*

The underlining in the paragraph above is added to highlight that the Open Letter acknowledged that there are some banks that are not currently active in initiating payments, and indeed may not be active in receiving payments either.

Since the Open Letter was published, other cases have been stated, of a particular branch of a bank which, unlike all other branches, is 1) not active at all in mass euro payments and neither sends nor receives such payments; or 2) is active in receiving such payments but does not originate them; or 3) only receives occasional numbers of such payments through some indirect means but never originates them.

The spirit behind the SCT Rulebook is that a bank active today in mass euro payments should continue these activities using the SCT Scheme. There is no intent of forcing a bank to change its business practices when it becomes a Participant. The following table provides a definition of the obligations of a bank adhering to the SCT Scheme:

Category	Current euro mass payments activity	SCT obligation
Normal	Receives & originates	Receives & originates
Receiver only	Only receives	Only receives (but can return a payment whenever necessary)
Inactive	Neither receives nor sends	Neither receives nor sends

(Note that the option "Only sends" has not been included, as this is not a realistic situation)

The obligations set out in this table are applicable to banks, and also to individual branches of a bank. It is expected that only a very small percentage of banks are anything but category "Normal", and similarly that there will be very exceptionally "Receiver only" or "Inactive" branches.

Readiness of a multi-country bank

Within SEPA, there are numerous multi-country banks each with large numbers of branches. In principle, when such a bank adheres to the Scheme, all branches must be fully ready and fully compliant with the SCT Rulebook. In other words, each branch must be able to both receive and originate SCT transactions (recall, however, the exemptions listed in the table above). There is a real risk that such a bank may be unwilling to adhere to the SCT Scheme due to the fact that a small

minority of its "Normal" branches, or even one single "Normal" branch, is unable to achieve readiness for originating SCT payments by 28 January 2008.

In our Open Letter of 31 May 2007, we stated that banks in a community known to represent the critical mass by volume were expected to be in a position to send and receive, but that "*Other institutions falling outside this group are expected to be in a position to originate SCT transactions for their customers (assuming they conduct such business) during the course of 2008.*" This relaxes the readiness requirement for a small percentage of banks ("small banks"), allowing them to start originating SCT transactions in the course of 2008, but at a date later than 28 January 2008.

To remove the risk identified above of a multi-country bank not adhering due to the inability of 100% of its "Normal" branches to be fully compliant by 28 January 2008, we will, on the recommendation of our Roll Out Committee, extend the concession set out in the 31 May Open Letter in the following manner. A multi-country bank with branches in a number of different jurisdictions is expected to adhere to the SCT Scheme and be operational on 28 January 2008 even if a small minority of its branches (which collectively represents a small percentage of its SCT payment volumes) is not yet ready to originate SCT payments. These branches are expected to be in a position to originate SCT transactions for their customers **during the course of 2008**.

Submission of adherence pack: a call to action by the EPC

The adherence timetable contained in our Guide invites banks to start submitting their adherence packs from early September this year, and imposes a cut-off date of 14 December for applications for banks to adhere in time for the SCT launch on 28 January 2008.

In an ideal world, we would receive the majority of adherence packs early in the adherence period, and would be able to process them within the time limits set out in the Scheme Management Internal Rules. All adherence packs received by 14 December will be processed by 12 January 2008. However, the world is not ideal, and there is a risk that the majority of applicants will leave the submission of their adherence pack until the last moment. This would put a severe strain on the EPC Secretariat in the period leading up to 12 January 2008 and lead to extra spend on interim resources to cope with the late surge.

The following aspects of the adherence process are highlighted:

1. If a Proposed Participant submits an Adherence Pack to the EPC Secretariat by 14 December 2007, it implicitly agrees to being ready to participate in the Scheme from 28 January 2008. A Proposed Participant should make every effort to submit its Adherence Pack in time for commencing participation on 28 January 2008. If, after submitting its Adherence Pack, a Proposed Participant is unable to become operationally ready for launch on 28 January 2008, it is free to inform the EPC Secretariat in a timely manner and delay its participation until a more convenient date.
2. The 31 May 2007 Open Letter contains a concession for "small banks" asking them to be reachable on 28 January 2008, but allowing them to be in a position to originate at a later date in 2008.
3. This Addendum to the Open Letter extends the concession in point 2 to a small percentage of branches of a multi-country bank.

In light of the above points, we would strongly urge you to adhere to the SCT Scheme as early as possible, and thus play your part in ensuring that the final preparations for making SEPA a reality and ensuring a smooth launch in January are successful.

Counting on your understanding and cooperation,

Yours sincerely,

Gerard Hartsink
EPC Chair

Stewart MacKinnon
EPC Secretary General