EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

Letter EPC050-07
Version 0.7

31 May 2007

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

**Re: Open letter to banks planning to adhere to the SEPA Credit Transfer and SEPA Direct Debit Schemes**

Dear all,

The purpose of this letter is to assist banks in SEPA in their planning process to achieve SEPA operational readiness as we move towards launch of the SEPA Payment Schemes starting in January 2008. It is distributed through EPC Members and in particular through banking associations.

The information in this letter is based on the already approved Scheme Rulebooks and their supporting documents, made available on www.europeanpaymentscouncil.eu. The process for adherence is currently being completed by the EPC Roll-Out Committee and will be finalised at the EPC Plenary meeting on 19 June 2007. The following aspects are described below:

- The proposed **timetable** for governance and adherence activities between June and December 2007.
- The **adherence requirements for the SEPA Credit Transfer Scheme** (SCT), which will go live on 1 January 2008.
- A reminder of the **obligations of Scheme Participants** for operational readiness, reachability and scheme compliance.
- A summary of **EPC guidance to its communities** in terms of monitoring and reporting on these activities
- A summary of the situation regarding the roll-out of **SEPA Direct Debit Scheme**, now impacted by the later than planned completion of the Payment Services Directive.

EPC AISBL– Av. de Tervueren 12 · B - 1040 Brussels ·Tel.: + 32 2 733 35 33 · Fax: + 32 2 736 49 88
www.europeanpaymentscouncil.eu secretariat@europeanpaymentscouncil.org

## Timetable for governance and adherence activities

| | |
|---|---|
| 19 June 2007 | EPC Plenary review and approval of the Rules and the adherence process to be incorporated in the Scheme Rulebooks which are thereafter circulated to all banks and communities in SEPA |
| July/August 2007 | EPC Secretariat:<br>• Creates the Register of Participants capability based on a software tool within its Web-site<br>• Sets up the necessary supporting administrative and management procedures<br>• Establishes liaison with National Adherence Support Organisations (NASO) |
| 28 September 2007 | Plenary approval of the membership of the EPC Scheme Management Committee (SMC) |
| 1 September 2007 | • Start of Adherence process for the SEPA Credit Transfer Scheme (SCT) where applicants each submit an executed Adherence Agreement<br>• First meeting of the SMC to review and decide on first batch of applicants to SCT<br>• Participant Register publicly available online (populated after each meeting of the SMC) showing successful applicants ("Participants") |
| October to December 2007 | Regular meetings of the SMC to review and decide on applicants, each followed by publication of an updated version of the Register of Participants |
| 14 December 2007 | Closure of Register for SCT Scheme Participants entering live operations on 1 January 2008. |

Note 1: Participants joining the SCT Scheme after 14 December 2007 will be entered in the Register on 1 February 2008 or the first of the month following their date of adherence as appropriate.

Note 2: **A similar timetable and process will be established for adherence to the SEPA Direct Debit Scheme.**

## Adherence to the SEPA Credit Transfer Scheme

Adherence will be based on Version 2.3 of the Rulebook and related documents, in particular its Implementation Guidelines. Version 2.3 will be presented to the EPC Plenary for adoption in June 2007. The main differences between Version 2.2 and 2.3 relate to the inclusion of the arrangements for scheme governance, and the removal of the remaining provision under which a Participant may choose to offer payment origination services or not. It will be unambiguous in Version 2.3 that a Participant is obliged to be in a position both to receive and originate SCT payments, but see below for further clarification as to the timescale in which this is expected to take place**.** The obligation to both receive and originate SEPA Credit Transfers is confirmed in the EPC Clarifying Note (EPC078-07) available on the EPC Web-site. Other than these points, there are **no changes in the operational or standards provisions.** All changes will be flagged.

Scheme Participants are expected to sign the Adherence Agreement to be included in Version 2.3 and provide the required Legal Opinion called for in the Scheme Rules. A Frequently Asked Questions list and a Work-Aid will be provided to assist in the process. At national level, EPC will work closely with National Adherence Support Organisations, typically banking associations familiar with SEPA and the work of EPC.

In adhering to the SCT Scheme according to the timetable laid out above, Scheme Participants will be automatically considered to be operationally reachable for SEPA Credit Transfers as of 1 January 2008 in terms of receiving SEPA Scheme - compliant Credit Transfers.

In launching the SEPA Credit Transfer Scheme, the EPC has as its first priority the creation of full receiver capability, and consequently stresses the importance of adherence to the Scheme by as many Participants as possible from the launch date. The creation of this receiver capability is initially more important than ensuring complete sending capability by all Participants. Nevertheless, in order to ensure critical mass and compliance with the EPC Declaration of 17 March 2005 (the Crowne Plaza declaration), a sufficient number of banks should be in a position to originate transactions.

Accordingly, all Scheme Participants identified by communities as composing 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 1 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.

In relation to the above two states of operational readiness (sending and receiving), Scheme Participants have obligations to their communities and should report accordingly as set out in the SEPA Testing Framework, and as detailed by the Programme Office of their community.

**Reminder of obligations of the SEPA Credit Transfer Scheme**

In order to achieve the necessary readiness and reachability, a Scheme Participant must satisfy the following conditions:

- Has adhered to the Scheme and become a Scheme Participant.
- Has become operationally ready, including the availability of the required BICs (Bank Identifier Codes).
- Has connected directly or indirectly to a PE-ACH Compliant ACH thereby ensuring that:
  - it is reachable by any Scheme Participant in SEPA and,
  - it can reach any Scheme Participant in SEPA from the time it begins to originate payments

The adherence process, which should be completed between 1 September and 14 December 2007, has been described above.

For operational readiness the following documents require to be fully complied with:

- The SCT Scheme Rulebook Version 2.3
- SEPA Data Model Version 2.2 including UNIFI (ISO20022) XML Standards (ISO 20022 XML) Standards
- SEPA Implementation Guidelines Version 2.3
- PEACH/CSM Framework Version 1.1 dated 5 January 2007
- Resolution on Reachability approved at the December 2006 Plenary

It should be noted that all Scheme Participants and their chosen intermediaries and CSMs are required to pass all data through the process chain on an end to end basis (including the up to 140 character remittance data). There must be no truncation of data within payments formatted in accordance with the rules of the Scheme. Scheme Participants and their service providers (including CSMs) employing conversion tools to create or convert XML messages should pay particular attention to this aspect. They must also be fully able to comply with the SCT Rulebook provisions for Rejects and Returns.

The testing process is set out in the SEPA Testing Framework Version 2.2 (EPC228-06). As defined in the SEPA Testing Framework, a bank is required to declare that it is SEPA operationally ready to its community. As part of the requirement to be operationally ready requires that the bank has carried out testing with other banks in the community (and with one or more CSMs), it is to be expected that the community implementation organisation is aware of all banks actively preparing to become operationally ready.

In December 2006, the Plenary passed the Resolution on Reachability (EPC146-06). The following quote is from the text of the Resolution:

QUOTE "It is further resolved that Scheme Participants should take the necessary steps to create the necessary operational reachability as required to support the obligations of the Rulebooks and as stated in the PE-ACH/CSM Framework. In addition the following recommended practices are, as set out in paragraph 2.4 of the PE-ACH/CSM Framework (EPC170-05), to be observed by Scheme Participants in relation to the use of a CSM:

*Scheme Participants using CSMs will need to observe operational rules, practices and guidelines appropriate to the individual CSM selected. Scheme Participants must be compliant with the obligation to achieve full reachability within SEPA, regardless of the CSMs they are using. This may be achieved in one or more of the following ways:*

1. *Each Scheme Participant shall ensure that it establishes access to a sufficient number of CSMs so as to create the required options for making and receiving payments and thereby creating reachability.*
2. *For Scheme Participants as users and where applicable as owners of CSMs to seek the necessary evolution of infrastructure so as create full reachability with a preference for the PE-ACH concept (see 3.4 below).*
3. *A Scheme Participant selecting a CSM must establish that the receiving Scheme Participant is addressable (directly or indirectly) through that mechanism.*
4. *Where the remitting Scheme Participant has no prior knowledge of how to address another Scheme Participant, the default selection will be a PE-ACH through which all Scheme Participants should be reachable.*
5. *Scheme Participants shall ensure that their chosen CSMs are and continue to be compliant with SEPA Scheme Rulebooks and the provisions of this Framework.* END OF QUOTE

It is incumbent upon all Scheme Participants to become reachable in accordance with the above provisions as part of their adherence to the Schemes. Direct or indirect connection to a PE-ACH compliant ACH is required.

For the sake of clarity, the above provisions apply to Scheme Participants throughout SEPA, including both euro-area countries (EU13) and non-euro countries in SEPA. The EPC has always maintained that implementation must take place as a priority in the euro-area, where full compliance with the above arrangements is required by the whole community. In non-euro countries, the above provisions are also applicable to all banks entering the Scheme as Participant.

**Guidance to communities on reporting to EPC**

Communities are now actively making preparations for 2008 including the implementation of project management organisations, the conduct of testing in accordance with the SEPA Testing Framework and close coordination with other stakeholders.

In addition to providing EPC with reports on these activities, it is expected that communities carry out a regular exercise over the coming months to advise EPC of the banks in their community which intend to adhere to the SCT Scheme before the end of 2007.

It is proposed that the data collection exercise be structured to obtain confirmation that each bank is actively taking steps to satisfy the conditions described in the foregoing sections of this letter.

The data gathered from each community will be used by the EPC Secretariat to produce a progress report by community in a format to be agreed.

**SEPA Direct Debit Scheme**

In its recent report to the European Commission and ECB, the EPC provided the following report on roll-out of the SEPA Direct Debit Scheme:

"Following the transposition of the Payments Services Directive into national law in the euro-area, it will be possible to roll out SEPA Direct Debit services to customers on a euro-area wide basis. When transposition becomes effective in all EU Member States (and its provisions are adopted in other SEPA countries), it will also be possible to roll out the services throughout the SEPA as a whole. It is essential that the SEPA Direct Debit Scheme is underpinned with an effective level of legal harmonisation in force in SEPA countries. In the meantime the necessary technical preparation activities for SEPA Direct Debit are continuing."

Given that the Payment Services Directive was approved by the European Parliament during April 2007, the roll-out across SEPA is expected to take place during 2009. The EPC will provide further guidance on the exact timetable at the latest by September 2007. In the meantime technical preparations and testing activities are occurring and should continue.

If communities wish to launch a SEPA direct debit service based on the Rulebook earlier than the SEPA-wide roll-out, for example on a national or bilateral basis, EPC has already stated that this is possible.

-o-0-o-

If banks have questions on the content of this letter they should contact the SEPA Programme Management Office in their community or, if required, the EPC Secretariat.

Yours sincerely,

Gerard Hartsink
EPC Chair

Charles Bryant
EPC Secretary General