

## Public Hearing

**A SEPA regulation aimed at ensuring the successful completion of SEPA must set binding end dates for migration to the SEPA payment schemes developed by the EPC**

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EPC Chair**

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### European Commission outlined its **concept for a forthcoming SEPA Regulation in March and June 2010**

- EC Discussion Paper 'SEPA Migration End-Dates' (March 2010)
  - Commission Services Working Paper 'SEPA Migration End-Dates' (June 2010)
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- End dates are being contemplated for compliance of euro credit transfer and euro direct debit schemes with **'essential requirements'** rather than for migration to the specific SEPA schemes developed by the EPC
  - This approach could lead to the emergence of **'new competing credit transfer and direct debit schemes'** compliant with the essential requirements
  - European Commission envisions **'interoperability'** of multiple SEPA payment schemes.

***“The introduction of the euro as the single currency of the euro area will only be completed when SEPA has become a reality.”***

**Statement from the European Commission and the European Central Bank\***

**Original SEPA concept defined by European authorities:**

- **All euro payments will be domestic within SEPA**
- **Once SEPA is achieved there will be no differentiation between national and cross border euro payments**
- **Harmonised SEPA payment schemes for euro credit transfers and direct debits are designed to eventually replace existing national schemes for euro credit transfers and euro direct debits**

\* May 2006

### What is a SEPA payment scheme (SCT/SDD)?

Set of rules, practices and standards necessary for payment services to function

The SCT and SDD Scheme Rulebooks contain rules and standards for the execution of SEPA payment transactions that have to be followed by banks

These rulebooks act as instruction manuals. They provide a common understanding on how to move funds and relevant information from account A to account B within SEPA

### A policy based on the concept of interoperability among payment schemes would consolidate fragmentation!

The concept of ‘competing payment schemes’ makes as much sense as arguing that competing railway tracks would boost competition in the transport and cargo sectors. The exact opposite would happen – train traffic would come to a grinding halt

This approach would not work for a **network industry** such as payments

An optimally efficient payment environment requires all banks of all bank customers to adhere to *common scheme rules and standards*, so that a payment is executed by parties which adhere to the *same rules and standards* of the *same payment scheme*

“EACHA thinks that the current SEPA convergence strategy based on the migration to the EPC Rulebooks and Implementation Guidelines is the best way of achieving the SEPA and therefore recommends that the Regulation should enforce them as the common set of standards for SEPA”. Statement EACHA <sup>5</sup>

*Commission's concept papers for regulation state:*  
“EPC has been granted a private monopoly...”

### *EPC's response:*

- The **cooperative space** in payments
  - European regulators mandated the banking industry (EPC) to develop a **single set of harmonised SEPA schemes**
  - **National payment systems today operate on the basis of a single set of payment schemes** for direct debit and credit transfer
- The **competitive space** in payments
  - Migration to a single set of SEPA schemes does **NOT** mean migration to specific SEPA **products and services** for customers
  - Increased competition at the **processing level (CSMs)** requires migration to a single set of SEPA schemes

### *Commission's concept papers for regulation state:*

“This option will retain the possibility of new competing credit transfer and direct debit schemes to emerge...compliant with ‘essential requirements’”

### *EPC's response:*

- **Prohibits increased competition** in the supply of payments services to the advantage of bank customers contingent upon standardisation and market integration
- **Rules out cost-savings and efficiency gains** contingent upon the replacement of a multitude of existing euro payment schemes by one single set of SEPA schemes as previously requested by the European Commission, EU Finance Ministers, the European Parliament and the European Central Bank

### *Commission's concept papers for regulation:*

Fail to establish definite end dates for the phasing out of existing national euro credit transfer and direct debit schemes

### *EPC's response:*

- **Prevents realisation of potential financial benefits** - estimated to reach a total of EUR 123 billion - from migration to a set of harmonised SEPA Schemes
- **Existing national euro payment schemes could become compliant with the 'essential requirements'**. Consequently, domestic transactions could still be handled by national schemes while SEPA schemes would be used exclusively for cross-border transactions. This scenario is called a '**Mini-SEPA**'

### *Commission's concept papers for regulation state:*

That the European Commission envisages itself as determining future business rules and standards (i.e. payment functionalities)

#### It proposes:

- To reserve the right to amend – at any time and at its discretion – requirements to be met by SEPA schemes
- **Proposed 'essential requirements' deviate from SCT and SDD Rulebooks**

### *EPC's response:*

- **Permanent uncertainty for all market participants**
- **Punish early movers** who invested into the renewal of their payment architecture to comply with SCT and SDD
- **Development of SEPA products and services** according to market need **will be constrained**

### *Commission's concept papers for regulation propose:*

Features of the SDD Schemes, which are currently optional - or could be provided as Additional Optional Services in response to customer needs - should become mandatory

### *EPC's response:*

- **SDD is built on the established pre-SEPA, national direct debit model used for decades in a large number of EU Member States**
  
- **Mandating optional features of the SDD Schemes:**
  - **Prohibits development** of SEPA products tailored to **specific customer requirements**
  - **Distorts the level playing field** between payment service providers as operational complexities would increase materially
  - **Increases costs for all to accommodate the needs of a minority;** these needs are addressed through options in the SDD Schemes

If endorsed by EU lawmakers, the EPC concludes that regulation based on the Commission's concept papers, published in March and June 2010, would:

- **Fail to establish deadlines for phasing out legacy euro payment schemes**
- **Abandon the original SEPA vision** to create one domestic euro payments market with no differentiation between domestic and cross border euro payment transactions
- **Prohibit increased competition in the supply of payments services** to the disadvantage of bank customers
- **Rule out potential cost savings** resulting from consolidation of cash management operations to the detriment of bank customers
- **Punish early movers on the demand and supply sides** who have already invested in compliance with the EPC's SEPA schemes – at the request of regulators

*Forthcoming Regulation must establish end dates for the phasing out of existing national euro credit transfer and euro direct debit schemes.*

**In line with expectations of the ECOFIN, the European Parliament and the European Central Bank, high costs of payment processing based on multiple payment schemes in parallel must be taken away**

**A binding end date for migration to the single set of SEPA schemes developed by the EPC – in close dialogue with the customer community – should be set through EU Regulation**