



**Fifth progress report on the migration to
SEPA in Belgium**

**Steering Committee on the future of means of
payment**

SEPA Working Group

June 2013

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1 INTRODUCTION

To help reduce reading time, the key messages are highlighted in grey.

This report has been compiled with the help of input from the various socio-economic stakeholders involved in the work being done in Belgium on the transition to SEPA, the Single Euro Payments Area¹. This is the fifth progress report, giving an overview of how SEPA has advanced in Belgium.

The intervening period between this progress report and the previous one was shorter than in the case of earlier reports in view of the fast-approaching end date of 1 February 2014 for the switchover to European direct debits and credit transfers. The state of play in the migration progress is now followed even more closely.

The objectives of SEPA have been described in some detail in earlier progress reports. The ultimate goal of SEPA is to enable all economic stakeholders (companies, consumers and public services) to make payments throughout the SEPA zone, as easily, securely and efficiently as with national payments.

The organisation of SEPA in Belgium has already been explained in depth in the previous progress reports. The "Steering Committee on the future of means of payment" is its main consultative body that brings together all the economic stakeholders (the banking sector, businesses, consumer rights associations and public services) in order to ensure sound monitoring of the SEPA migration. Chaired by the Governor of the National Bank of Belgium (NBB), the Steering Committee brings together all interested parties with a view to organising the switchover to SEPA in Belgium as efficiently as possible. This progress report is an integral part of this mission.

Chapter 2 deals with the legal framework for SEPA; it takes stock of the practical implications of the Regulation on the end date for the migration and makes clear that none of the derogations proposed in this Regulation are likely to be requested for Belgium.

Chapter 3 sets out in detail the measures in terms of communication that have been taken for each of the sectors involved in the migration, at both European and Belgian levels. These initiatives seek to raise awareness of the project and its implications for each of the participants so as to ensure the sound changeover to the European payment instruments by 1 February 2014 at the latest.

Developments with the Belgian switchovers to the European direct debit and credit transfer are described in the fourth chapter while comparing them with the situation in the rest of Europe.

The fifth chapter is devoted to the future organisation of the project's governance in Europe. Amendments to the tasks and objectives of the SEPA Council were expected to be drawn up by the European Commission by the end of June this year.

Finally, the last chapter of this report will dwell on future developments with SEPA, whether arising from the new legislation (revision of the Payment Services Directive and Regulation of multilateral interchange fees) or from market initiatives such as payments by mobile phone or over the internet.

¹ The SEPA zone countries are the Member States of the European Union (EU) as well as Iceland, Liechtenstein, Monaco, Norway and Switzerland. A number of territories are considered as being in the EU (pursuant to Article 299 of the Treaty of Rome). These are the French overseas departments (Martinique, Guadeloupe, French Guiana and Réunion), Gibraltar (United Kingdom), the Azores and Madeira (Portugal), the Canary Islands (Spain) and the Åland Islands (Finland). Five of these territories have their own ISO country code. All in all, there are 37 possible ISO country codes under SEPA. A transaction is not regarded as a SEPA transaction unless it is effected between two banks whose Bank Identifier Code (BIC) contains one of these 37 ISO country codes.

2 UPDATE ON THE REGULATION ON THE END DATE FOR THE MIGRATION TO THE EUROPEAN DIRECT DEBITS AND CREDIT TRANSFERS

On 14 March 2012, the European Parliament and the Council adopted Regulation N° 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (hereafter referred to as the Regulation). It sets a common date of 1 February 2014 by which credit transfers and direct debits will have to be carried out in accordance with the Regulation's technical requirements (meeting the SEPA standards).

Although the state of play with migration to European credit transfer and direct debit schemes differs from one Member State to another, a joint deadline, set at the end of an adequate implementing period, which would allow for all the necessary procedures to take place, will help ensure a coordinated, coherent and integrated migration to SEPA, and thus prevent a two-speed SEPA that would cause confusion among consumers and other users.

Consequently, the Regulation fixed a common end-date, **1 February 2014**, from which credit transfers and direct debits must be executed in compliance with the technical requirements set out in the Regulation. In practice, the order forms for national direct debits and credit transfers will have to be replaced by the SEPA format throughout Europe.

The main elements introduced by the Regulation are as follows:

- The date of **1 February 2014 is set as the deadline** by which national credit transfers in euros and the national direct debit formulas will have to be replaced by the European transfers (SEPA Credit Transfer - SCT) and direct debits (SEPA Direct Debit - SDD).
- The **ISO20022 XML** standard will have to be used as the format for messages in the interbank environment and for certain payment service users when sending or receiving payment instructions.
- The **Business Identifier Code (BIC)**: The obligation for the payment service user to mention the BIC code when initiating a payment is scrapped.
- Payment systems will have to be **technically interoperable** through the use of standards developed by international or European standardisation bodies.
- Payment service providers carrying out national credit transfer or direct debit transactions will have to be **accessible** for the same transactions in the European format from any other EU country.
- **Multilateral interchange fees (MIF)** will be gradually phased out for direct debits, with the exception of those charged for return transactions subject to certain conditions.
- A series of **supplementary measures** are laid down **with a view to protecting the consumer** when using direct debits.
- The measures providing for **payment accessibility** will enable payment service users to choose the country in which they want to establish their payment accounts.

To date, there are no deferments nor derogations as provided for by Article 16 of the Regulation envisaged for Belgium. All the above-mentioned elements will be in place by 1 February 2014 at the latest. The Belgian banking community is already working on a phase-out plan for national credit transfers and direct debits.

In Article 16, the Regulation sets out a series of transitional arrangements and derogations.

Generally speaking, the transitional arrangements concern countries that have not adopted the euro as their currency but which offer payment services in euro. These countries are allowed extra time to make the changeover to the SEPA payment instruments, that is, until 1 February 2016.

The Regulation allows payment services providers to offer consumers conversion services for national payment transactions, enabling them to continue to use the BBAN number instead of the IBAN bank account identifier until 1 February 2016. In Belgium, work on informing payment service users of this identifier will be stepped up and the Belgian banking community is currently in the process of gradually adapting the communication channels, such as e-banking or phone-banking, so as to offer only the IBAN as the single identifier from 1 February 2014 onwards.

The new legislation also allows the Member States to give payment services users the option of asking to postpone until 1 February 2016 at the latest their obligation to use the prescribed standards, namely the ISO 20022 XML standard, when they initiate or receive individual credit transfers or direct debits that are bundled together in batches before being sent on.

In Belgium, payment services providers will help users with the necessary changes so they can meet this requirement without delay. On the other hand, if payment services users request them, as from 1 February 2014, their provider will provide the files in accordance with the new standard.

As far as "niche" products are concerned, that is credit transfer or direct debit transactions with a market share of less than 10 % of the total number of transactions, the Member States may authorise them until 1 February 2016.

Likewise, payment transactions using a point-of-sale card (such as store cards) and involving a direct debit may benefit from an extended deadline too.

In Belgium, no niche products have been identified, nor is there any second type payment transaction.

A derogation may also be requested as regards the obligation to use the required formats for bundled transmission of individual payment instructions by users other than consumers or micro-enterprises.

To date, there has been no request of this kind in Belgium.

Lastly, the Member States have the option to postpone the requirements for mentioning the BIC code for national payment transactions. In other words, the obligation for the payment services user to mention the BIC code may be put back to 1 February 2016.

So far, Belgium has not send in any request for a derogation to the Commission.

The future version of interbank schemes will enable this code to either be given or not.

There have been relatively few derogations sent in to the Commission. A summary table is given below.

TABLE 1: Derogations by country

	AT	BE	CY	EE	FI	FR	DE	GR	IE	IT	LU	MT	NL	PL	SK	SI	ES
End dates																	
End date for credit transfers in euro area Member States earlier than 1 Feb.2014?	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	Yes	No
End date for direct debits in euro area Member States earlier than 1 Feb.2014?	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	Yes	No
Multilateral interchange fees for national direct debits until 1 Feb. 2017?	No	Yes		No	No	Yes	No	-	-	Yes	-	-	No	Yes	No	No	No
Conversion services and waivers																	
Are PSPs allowed to offer consumers conversion services to IBAN for national transactions until 1 Feb. 2016?	No	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No	?	Yes	No	Yes
Is there a waiver until 1 Feb. 2016 for niche products?	Yes	No	Yes...	-	No	Yes	No	Yes	No	Yes	No	No	No	?	-	No	Yes
Is there a waiver until 1 Feb. 2016 for card payments resulting in a direct debit?	Yes	No	-	-	No	No	Yes	No	No	No	No	No	No	No	-	No	No
Is there a waiver until 1 Feb. 2016 for use of the ISO 20022 XML format for individual credit transfers or bundled direct debits in batches?	No	No	yes	Yes	No	No	No	Yes	No	Yes	No	No	No	?	Yes	No	Yes
Is there a waiver until 1 Feb. 2016 allowing continued use of the PSP's BIC for national credit transfers?	No	No	yes	No	No	No	No	Yes	Yes	No	No	Yes	No	?	No	No	No
Is there a waiver until 1 Feb. 2016 allowing continued use of the PSP's BIC for national direct debits?	No	No	yes	No	No	No	No	Yes	Yes	No	No	Yes	No	?	No	No	No

The Regulation also lays down a series of supplementary measures to be followed when using direct debits with a view to better consumer protection.

The Rulebook compiled by the EPC² which defines the SDD (SEPA Direct Debit) interbank standards will be adapted to take account of the extra requirements brought in by the Regulation. In practice, the payer must have the right to instruct its payment services provider:

- to limit a direct debit collection to a certain amount or periodicity or both;
- where a mandate under a payment scheme does not provide for the right to a refund, to verify each direct debit transaction, and to check whether the amount and periodicity of the submitted direct debit transaction is equal to the amount and periodicity agreed in the mandate, before debiting their payment account, based on the mandate-related information;
- to block any direct debits to the payer's payment account or to block any direct debits initiated by one or more specified payees (black list), or to authorise direct debits only initiated by one or more specified payees (white list).

The Belgian banking community is currently discussing how to put these supplementary requirements into practice so as to provide a harmonised version when they are implemented at national level by 1 February 2014 at the latest.

Lastly, the Regulation provides for the determination of the competent authorities at national level and sanctions to be applied in the event of any breach of its rules.

The preliminary draft Law implementing this Regulation also provides for the determination of the prudential authorities and the establishment of an out-of-court dispute settlement procedure.

The Regulation's provisions will not only govern the technical conditions needed by the payment services provider for the execution of payment instructions (credit transfers and direct debits) but also relations between the payment services provider and the payment services user. It is thus logical that responsibility for overseeing most of the Regulation's provisions lies with the FPS Economy.

However, an article in the Regulation deals specifically with interoperability and imposes obligations to this end on payment service providers and retail payment system operators. It is therefore likely that the National Bank will be in charge of overseeing this provision.

² The EPC is the banking industry's decision-making and coordinating body at the European level for all matters concerning payments.

3 COMMUNICATION ON SEPA

The deadline for completing the migration to the European formats for credit transfers and direct debits is fast approaching. Each party involved in this process needs to be made aware of the changes and needs to focus on the necessary investment still to be made.

The 15th paragraph of the Regulation's preamble stresses the importance of communication for migration to the European payment instruments, direct debits and credit transfers (SEPA):

"It is absolutely crucial that all actors, and particularly Union citizens, are properly informed, in a timely manner, so that they are fully prepared for the changes brought about by SEPA. Key stakeholders such as PSPs, public administrations and national central banks, as well as other heavy users of regular payments should therefore carry out specific and extensive information campaigns, proportionate to the need and tailored to their audience as may be necessary, in order to raise public awareness and prepare citizens for SEPA migration. In particular, there is a need to de familiarise citizens with migration from BBAN to IBAN. National SEPA coordination committees are best placed to coordinate such information campaigns."

At the same time, publication of the EU Regulation setting an end date for completing the migration to the European credit transfers and direct debits has enabled easier and more direct communication. A series of measures designed to promote this project have thus been put in place, both at European and national level. What remains to be done now is to assess the impact of these initiatives on each of the stakeholders involved, and particularly on small and medium-sized enterprises.

3.1 IN BELGIUM

3.1.1 THE NATIONAL BANK

As part of its role as promoter of the migration to SEPA, the National Bank has stepped up the number of meetings targeted on each type of participant so as to provide the best possible response to their specific questions.

In its role of presiding over the Steering Committee on the future of means of payment in Belgium, the National Bank of Belgium has the task of monitoring the progress of SEPA among the various parties involved and ensuring that there is a consistent approach in the efforts devoted to communication. A successful migration to SEPA is only possible if all stakeholders make sufficient efforts to circulate informations about SEPA within a reasonable timeframe. This is why the different parties involved in the process must commit themselves to making the necessary communication so as to inform their counterparties in time.

During the previous meeting of this Steering Committee, all institutions present had been asked to answer a short questionnaire on action taken in terms of communication about SEPA and more specifically about the end date for the migration to the European credit transfers and direct debits. The findings from this survey point up large disparities even within the different types of participants, whether they be public administrations, consumers or financial and non-financial corporations. What now needs to be asked is whether wider-scale communication measures should be taken in close consultation with the financial sector and the general public.

On the other hand, still in its role as promotor of the SEPA migration, the National Bank of Belgium has stepped up organisation of meetings targeted on each type of participant so as to better

respond to their specific questions. These information sessions have recently broached as a priority the migration to the more complex issue of the SEPA direct debit. Since the beginning of the year, an initial information session was held in January, addressed to forty of the biggest corporate users of the direct debit, followed by a second session in April that was open to up to 150 of the next biggest businesses using the direct debit. In the meantime, a session specifically targeted at Enterprise Resource Planning (ERP) suppliers of computer solutions was held at the beginning of April. All these sessions have tackled very precise questions and there has been wide involvement of firms invited, showing that migration is indeed under way : the preliminary analyses are now complete and the first steps have started. So the switchover from the domestic direct debit to its European version can be expected to pick up speed during the third quarter of the year.

Last but not least, the National Bank of Belgium has further developed the section on SEPA of its website by offering several communication tools that can be reused by federations or companies individually thus enabling them to pass on the information to their members and other internal staff.

The timetable for the National Bank's initiatives regarding communication on SEPA is given below.

TABLE 2: Summary of NBB communications

On SEPA payment systems page: http://www.nbb.be/sepa/en	
Information sessions	30/04/2013 Big Billers information meeting 15/04/2013 ERP/IT providers information meeting 18/01/2013 Big Billers information meeting 18/10/2012 Consumers information meeting 08/06/2012 ERP/IT providers and accountants information meeting 03/05/2012 Federations information meeting
Press releases	31/01/2013 Press release: 1 year before the start 13/09/2012 Press release: 4th progress report on the migration
SDD publications	Fonctioning and migration (ppt presentation) Description and procedure for the migration (Febelfin folder) Core information brochure B2B information brochure
SDD publications	Steps Information brochure
Communication tools	One-pager: the migration in practice General information on SEPA (ppt presentation) SEPA legal framework (ppt presentation) 4 ECB videos

3.1.2 THE FINANCIAL SECTOR

Belgian banks have taken a series of individual initiatives to keep both their internal and external customers informed of the impact and changes that the migration to SEPA entails, whether by sending out e-mails, by updating their home banking websites or by organising information sessions among their clients and in-house.

Pursuant to Article 79 of the Law on payment services governing the validity of DOM80 direct debit mandates under the SDD scheme, payment institutions will inform users individually of any changes in the administration of mandates at the latest two months before the said change. To meet this requirement, a pragmatic approach will be followed.

Moreover, the Belgian financial sector federation Febelfin has undertaken a good many actions since 2008 by informing its members, mainly banks operating in Belgium, of the impact of the migration to the European payment instruments. These actions have also been stepped up since the beginning of the year, taking the form of folders summing up the key points in these switchovers, more detailed brochures about the formats and changes in the management of instruction flows, and information sessions targeted directly at the Belgian banking sector. The banks have therefore taken a series of individual initiatives to inform their external and internal clients, whether by sending out e-mails, by updating their home banking websites or by organising information sessions for their customers, both inside and outside.

Lastly, on 1 February 2013, exactly one year before the migration end date, the financial sector, together with the National Bank of Belgium, published a press release targeted at the general public.

The most relevant information is given in the table below:

TABLE 3: Summary of FEBELFIN communications

FEBELFIN - http://www.sepabelgium.be/fr	
Publications on the website	<p>31/01/2013: http://www.febelfin.be/fr/sepa-une-obligation-pour-le-1er-fevrier-2014-le-compte-a-rebours-est-lance</p> <p>Description and procedure for the migration (Febelfin folder) - version 02/2013 http://www.sepabelgium.be/files/SDD-brochure-version-3-1-fev2013-fr_1.pdf</p> <p>B2B folder http://www.sepabelgium.be/files/Folder-DOM-B&B-2013-FR_0.pdf</p> <p>CORE folder http://www.sepabelgium.be/files/Folder-DOM-Core-2013-FR.pdf</p> <p>SEPA Direct Debits Return, Reject & Refund reason codes in CODA (<i>explanatory addition to the brochure</i>) http://www.sepabelgium.be/files/SDD-reason-codes-version-dec-2011-nl-fr.pdf</p> <p>SEPA SDD Schemes http://www.sepabelgium.be/files/Shortcut%20to%20the%20SEPA%20Direct%20Debit%20Schemes.pdf</p> <p>link to the Rulebook http://www.europeanpaymentscouncil.eu/content.cfm?page=sepa_direct_debit_(sdd)</p>

3.1.3 BUSINESSES

While changing over to the new European payment instruments, some businesses have taken the initiative to arrange communication actions privately.

These actions are targeted on both the company's own staff and external customers. More specifically, last year, a major electricity sector utility sent out information to its customers in the form of a printed folder with their invoice. This company had also worked closely with the National Bank at an information session to give a practical presentation of its own experience in the changeover to the European direct debit. This year, it was the turn of a major Belgian cable operator to take part in the information sessions held by the National Bank and to hold internal training sessions to prepare its own staff for the changes in practice.

3.1.4 CONSUMERS

The Regulation on the end date covers supplementary arrangements designed to step up consumer protection when using the European direct debit. The consumer associations are seeking to explain actual practice.

As far as consumers and their representative associations are concerned, the main change in the migration to SEPA involved the switchover from the BBAN to the IBAN. Test-Achats, Belgium's main consumer representation and information association, had informed its readers and its members about this via a webpage devoted to SEPA. Nowadays, almost everyone knows about this change, which no longer requires any extra communication effort.

However, with the arrival of the Regulation on the end date and the supplementary arrangements for boosting consumer protection in the use of the European direct debit, Test-Achats proposes to set out these measures in detail and examine how the banks are implementing them. The webpage will shortly be updated to take account of these latest elements and a special article should soon be devoted to them in its magazine.

3.2 IN EUROPE

The various institutions leading the SEPA project have also taken a set of communication measures to ensure completion of the migration to the European payment instruments by 1 February 2014 at the latest.

More recently, the Ecofin Council³ issued a press release (see annex) following its meeting on 14 May 2013 in which it puts the accent on both the imminence of the deadline for the migration to the European direct debits and credit transfers and on the importance of communication at national levels to raise awareness about the project, and especially among small and medium-sized enterprises as well as public and local authorities. In the same press release, the Ecofin Council calls on the national central banks, finance ministries and national banking federations to step up their communication about SEPA notably via the general and professional press, and television or radio spots. This press release received strong backing from the ECB and the European Commission as evidenced by a letter sent to the president of the Ecofin Council signed by Messrs Benoît Coeuré, member of the European Central Bank's Executive Board, and Michel Barnier, European Commissioner for the Internal Market and Services.

So, the European Central Bank (ECB) publishes a table featuring all the specific aspects of the national migrations of domestic payment instruments (options, derogations, etc.) to improve the consistency of SEPA implementation. Qualitative remarks and references to national documents about the migration are added to the general table so as to facilitate access to more detailed

³ Economic and Financial Affairs Council, a formation of the Council of the European Union bringing together the Finance Ministers of the Member States.

information. Furthermore, it regularly updates the different national initiatives on communication about the SEPA project.

Lastly, the ECB regularly publishes follow-up statistics on the migration to the European direct debits and credit transfers. Recently, it released its first progress report on the migration to SEPA⁴ with a set of recommendations for a risk-free migration by 1 February 2014. This report also includes a summary table on the state of play with the migration in the SEPA zone by type of instrument and type of participant. These tables, which use three different colours to symbolise the state of play with the migration clearly indicate that some countries in the SEPA zone are experiencing a few problems in rallying round all the various sectors, but in most cases the migration will be effective by 1 February 2014. This progress report will be published again during the month of September.

TABLE 4: Summary of ECB communications

ECB		
SEPA migration	28/03/2013	Qualitative SEPA indicators per country on preparedness
	21/03/2013	Eurosystem's first SEPA migration report → Press release
Speeches by Benoît Coeuré	15/04/2013	Harmonising cashless payments: the SEPA experience
	21/11/2012	SEPA migration, innovation and change
	15/11/2012	The euro as a trusted means of payment

Since the end of last year, a special working group on SEPA communication, in which some fifteen national central banks take part, has met regularly to share their mutual experience. In all the SEPA zone countries, communication activities are being undertaken at various levels in order to raise awareness about SEPA and its definitive nature and absolute deadline of 1 February 2014. These actions have taken the form of television or radio spots, consumer surveys or roadshows.

From a practical point of view, the ECB and the EPC have also published short videos on their websites giving general information about the objectives and the main changes regarding the European direct debit and credit transfer.

As the table below shows, the EPC very frequently publishes articles targeted at practical understanding of the migration to SEPA for all users and payment services providers.

⁴ <http://www.ecb.europa.eu/pub/pdf/other/sepamigrationreport201303en.pdf>

TABLE 5: Summary of EPC communications

EPC - http://www.europeanpaymentscouncil.eu/content.cfm?page=sepa_credit_transfer - http://www.europeanpaymentscouncil.eu/content.cfm?page=sepa_direct_debit_(sdd)	
04-04-13	Late Movers: Learn to Love SEPA. There are Ten Months Left to Meet the 1 February 2014 Migration Deadline Mandated by European Union Law
07-03-13	The Long Road to Harmonisation: Transitional Arrangements in European Union Member States Permissible Under Regulation 260/2012 (the SEPA Regulation)
19-02-13	Get Ready for SEPA by 1 February 2014 and Get Inspired: Early Movers on the Demand Side Identify Best Practice – Part II (SEPA Direct Debit)
07-02-13	Get Ready for SEPA by 1 February 2014 and Get Inspired: Early Movers on the Demand Side Identify Best Practice – Part I
23-01-13	There is Only Plan A: Get Ready for SEPA in the Next Twelve Months in the Euro Area! Latest Data Shows Good Progress in the Corporate Sector Now Preparing for the 1.2.2014 Deadline
19-11-12	Is Your Local Corner Shop Ready for SEPA? Belgian Best Practice Shows How to Engage Small and Medium-Sized Enterprises in the Migration Process
25-10-12	To Anyone Who Has Not Yet Started the Process of Getting Ready for SEPA by 1.2.2014: Act Now!

4 MIGRATION TO THE SEPA CREDIT TRANSFER (SCT) AND THE SEPA DIRECT DEBIT (SDD)

4.1 MIGRATION TO THE EUROPEAN TRANSFER (SEPA CREDIT TRANSFER - SCT)

4.1.1 IN BELGIUM

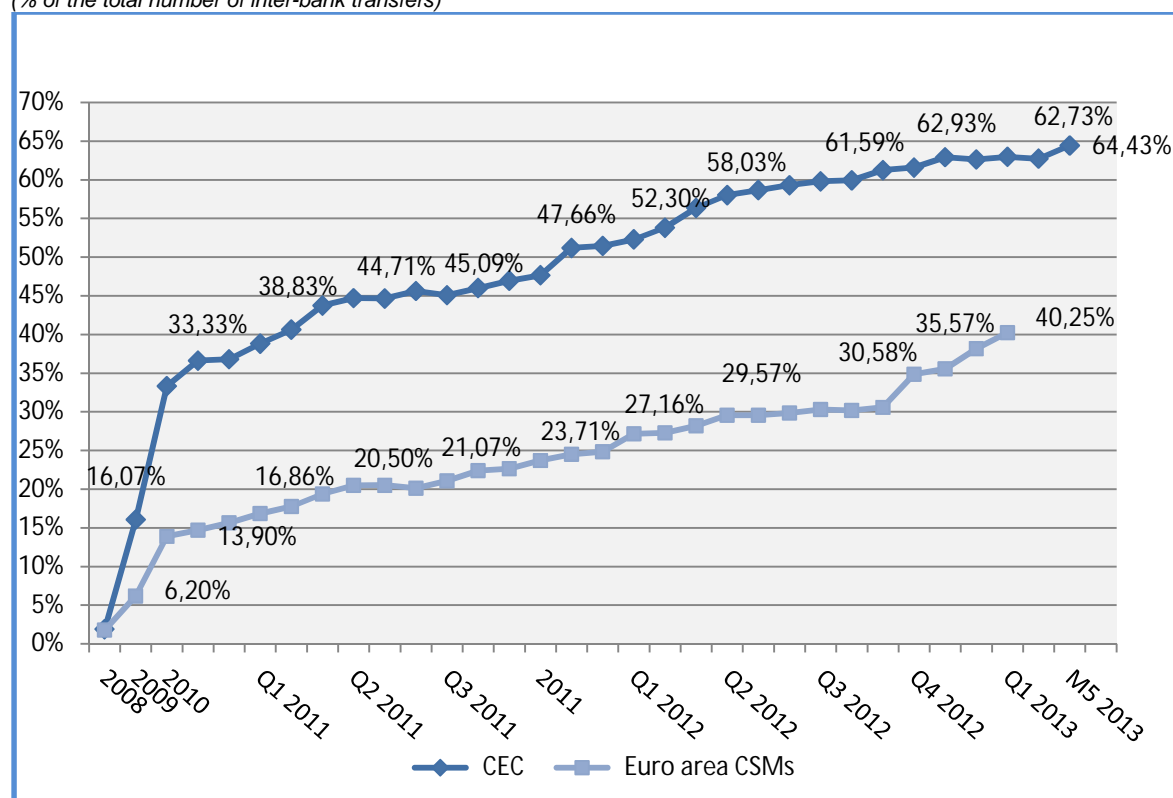
In Belgium, the share of European credit transfers has now reached almost 63 % of the total number of transfers, a much higher level than most other countries.

Public administrations and the big billers have mostly switched over to SEPA now, but this is not yet the case for a number of small and medium-sized enterprises.

Following on the heels of the public authorities, most of the big billers had completed the migration to the SEPA credit transfer during the course of 2011 and now systematically send out a European credit transfer slip along with their payment requests.

CHART 1: Credit transfers in the SEPA format (2008 - March 2013)

(% of the total number of inter-bank transfers)



Sources: European Central Bank (ECB) and Centre for Exchange and Clearing (CEC)

The chart below compares the volume of European credit transfers handled by the Belgian retail payment system (the CEC) with the aggregate volumes processed by the main European retail payment systems within the euro area.

While the SEPA migration started a long time ago in Belgium, it should nevertheless be noted that it has slowed down a bit since the beginning of the year 2013, stagnating at around 63 %.

The reasons for this weakness in the SEPA migration trend may lie in several different factors. A large proportion of companies active in the Enterprise Resource Planning (ERP) market, that is for integrated management and accounting software, have adapted their products to make them compatible with the SCT but they are not all ready yet and are therefore not in a position to offer their customers SCT-compliant software solutions. Consequently, their clients have to wait themselves before making the necessary internal changes to be able to start their own migration to the SCT. At the same time, now that the biggest companies have completed their switchover to the European credit transfer, many smaller firms with lower transaction volumes still have to finish their migration.

4.1.2 IN EUROPE

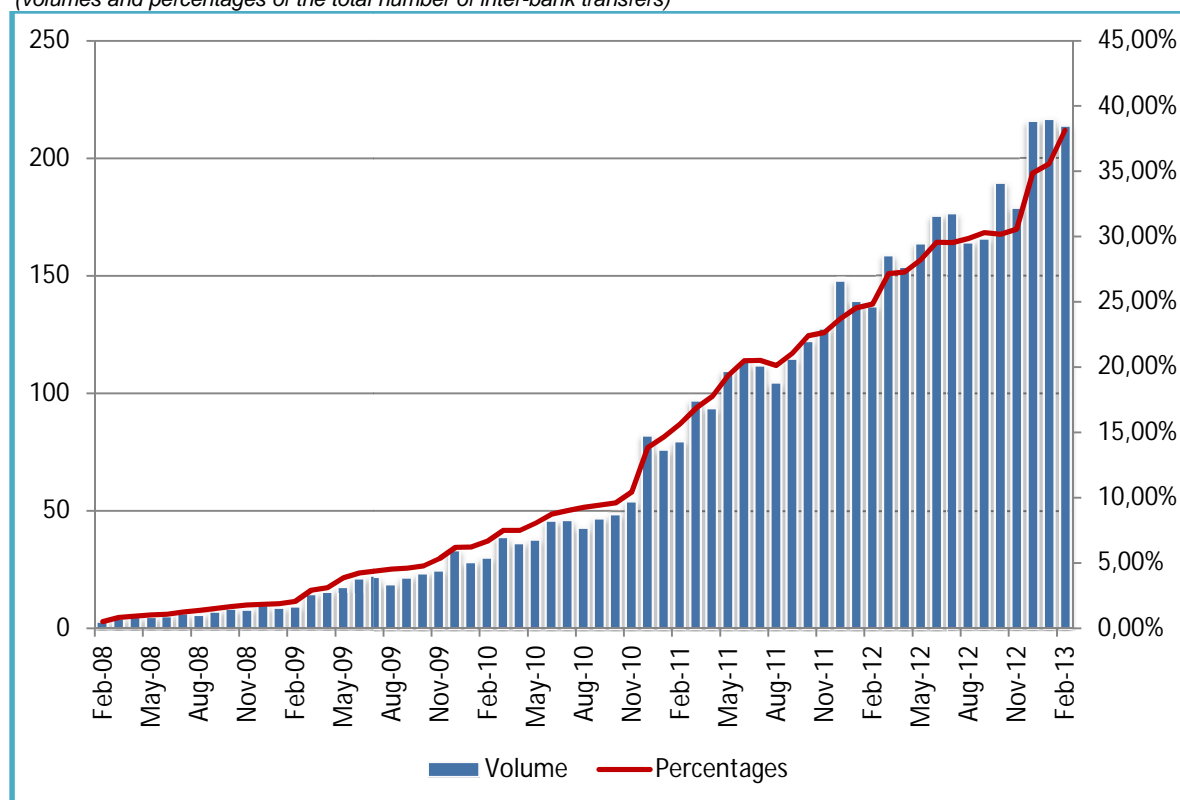
In Europe, despite a very slow start, the migration to the European credit transfer has recently picked up speed. This expansion, which really started to take off at the end of 2010, thanks among others to Belgium, has seen a much faster growth rate over the last six months, bringing the rate of transfers made under SEPA standards up to nearly 40 %.

The changeover to the SCT was very slow to get off the ground for the SEPA zone countries as a whole and remained below the 10 % mark until the end of the year 2010. From this moment onwards, the first major migrations could be observed.

Since the end of last year, the pace has picked up even further, reflecting the deadline decided by the European Commission in March 2012 and the resultant intensified communication.

CHART 2: Credit transfers in the SEPA format (2008 - February 2013)

(volumes and percentages of the total number of inter-bank transfers)



Source: European Central Bank (ECB)

Across all the SEPA zone countries, migration to the European credit transfer does not seem to pose any major problems, the principal change for the user being the modification of the single reference, using the IBAN instead of their "old" account number. Payment service providers have now finished the migration to the ISO 20022 XML standard and interbank payment messages are now conform with the requirements of the EU Regulation.

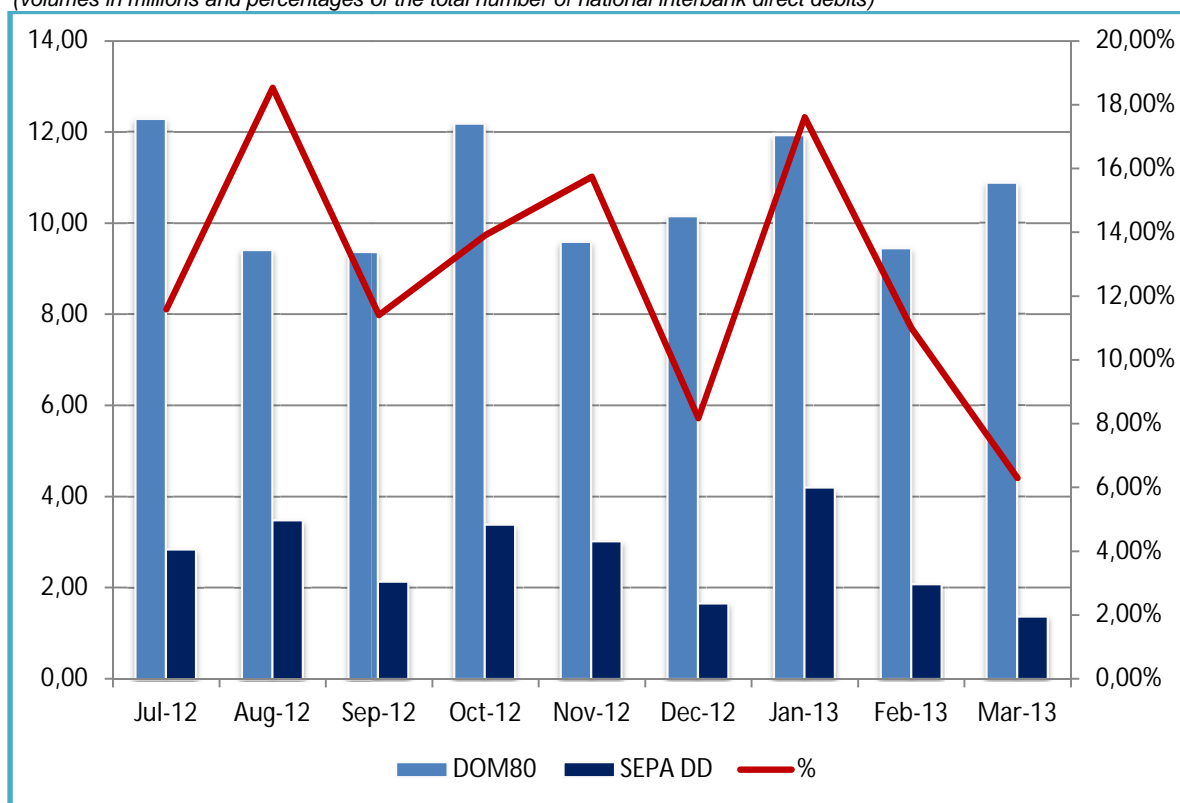
To sum up, migration to the SCT is gathering momentum at European level. Its relative simplicity and its similarity with the pre-existing national credit transfer have undoubtedly contributed to this growth. However, the last links in the European credit transfer processing chain will only be complete when the banks have adapted all their transmission channels to the specific requirements of SEPA and when all payment services users have adjusted their ERP systems. So, while the conversion to the XML 20022 format can now be offered to users, it can still complicate the reconciliation process. In order to avoid such complications, the European Central Bank recommended, in its own progress report on the migration to SEPA, that payment service providers adapt their transmission channels to make them compatible with SEPA transactions as quickly as possible and by the end of the second quarter of 2013 at the latest.

4.2 MIGRATION TO THE SEPA DIRECT DEBIT (SDD)

4.2.1 IN BELGIUM

After a very slow start-up for the European direct debit, one of the biggest billers in Belgium opted to switch over to the SEPA direct debit, at the end of 2011, bringing in one fell swoop the market share of the European version up to within a range of 12 and 15 %.

On 1 November 2009, the European direct debit was launched and the migration remained at a very low level for the first two years. Then, halfway through November 2011, one of the leading creditors in Belgium (a public utility operating in the energy sector) began converting its domestic direct debits (DOM80) into European ones. A month later, in mid-December, the conversion has been successfully completed, and all customers had migrated without a hitch to the European format. As a result of this changeover, as many as 19 % of all direct debits in Belgium were made in the SEPA format by December 2011. During the course of 2012, this figure fluctuated between 6 and 19 %, depending on the number of direct debits cashed by this creditor. There has been no other major case of migration since then.

CHART 3: National direct debits in the SEPA format (July - March 2013)*(volumes in millions and percentages of the total number of national interbank direct debits)*

Sources: European Central Bank (ECB) and Centre for Exchange and Clearing (CEC)

A major difficulty in the Belgian migration to the European direct debit is the transfer of mandates. The National Bank has set up a central file enabling the exchange of the mandate from the client's bank to the creditor.

Under the domestic direct debit regime, the mandates are held and administered by the debiting client's bank. Under the SDD scheme, administration and archiving of mandates is the creditor's job. However, this migration remains completely transparent for customers and their existing rights under the domestic direct debit are safeguarded. In order to facilitate the transfer of all DOM mandates and to ensure their continuity under the European scheme without having to require the signature of millions of new mandates, the National Bank has set up a central file of mandates.

The banks of debtor clients feed information into this file, and the new reference documents are added to it (IBAN and BIC) so the suppliers' banks can thus download data from the mandates and pass them on to their client. It can be seen from this file that 15 smaller enterprises have now completed their migration to the SDD and that another 66 have also asked to no longer open DOM80 mandates and to work exclusively with the new SDD mandates, since these firms are in the midst of the migration process.

At the beginning of the year, some big businesses started their analyses and development processes and their actual migration is scheduled for the second half of 2013. However, many companies operating on the market for Enterprise Resource Planning (ERP) software still have to adapt their products to make them compatible with the new SDD standards.

At the beginning of this year, some big businesses started their analysis and development processes for making the changeover. Since the process is highly complex, most of these big companies will be changing over to SEPA during the course of the third quarter of this year. Further increases in the migration rates can thus be expected from then on.

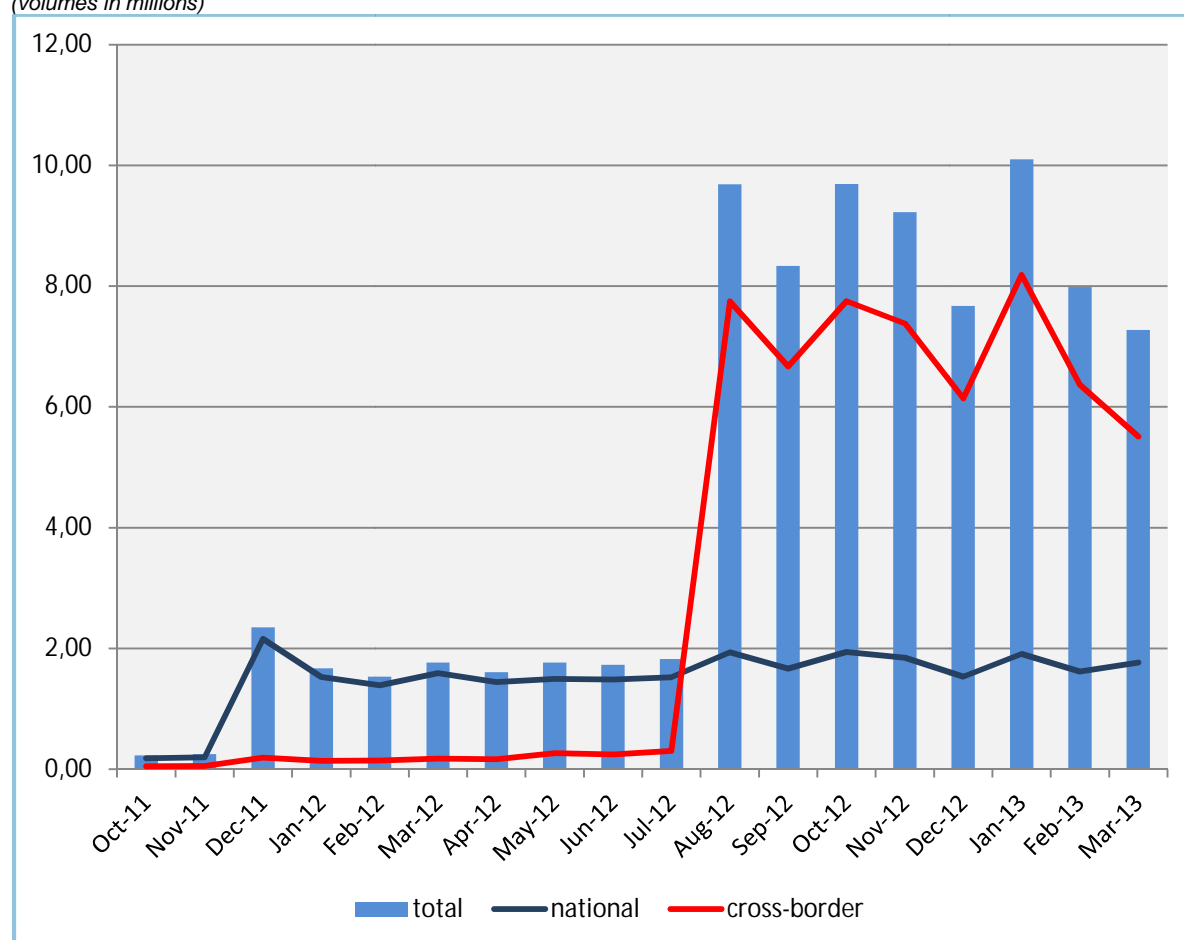
Turning more specifically to suppliers of IT management solutions, a wide-ranging survey is currently being carried out to get a more precise idea of the state of play in their migration to the European direct debit and to identify the requirements that still have to be met to facilitate integration of these changes into the IT solutions already used by businesses.

Looking at the breakdown of direct debits cashed by Belgian creditors by destination, whether Belgian or cross-border, it is clearly evident that the vast majority (around 80 %) of them are done by debiting a foreign account.

This has only been possible as a result of setting up this new payment instrument in the form of the European direct debit, and it demonstrates the genuine and concrete possibilities offered by SEPA. And it is not just a question of switching away from existing direct debits, but rather a change to new debit transactions stemming from the new SDD mandates.

CHART 4: National and cross-border SDDs (October 2011 - March 2013)

(volumes in millions)



Source: EBA Clearing (estimates for August-September 2012)

Finally, as regards the Belgian breakdown between both the SDD Core and the SDD B2B schemes, an average of almost 90 000 B2B transactions are registered each month out of more than 1.8 million European direct debits. This format, which is reserved for non-consumers, did not exist before and clearly meets firm market demand. Several big enterprises (particularly in the oil sector) have migrated to the B2B scheme and clearly meets firm market demand. Several big companies (notably in the oil sector) have migrated to the B2B scheme and have since been collecting payment for their daily supplies in the European format.

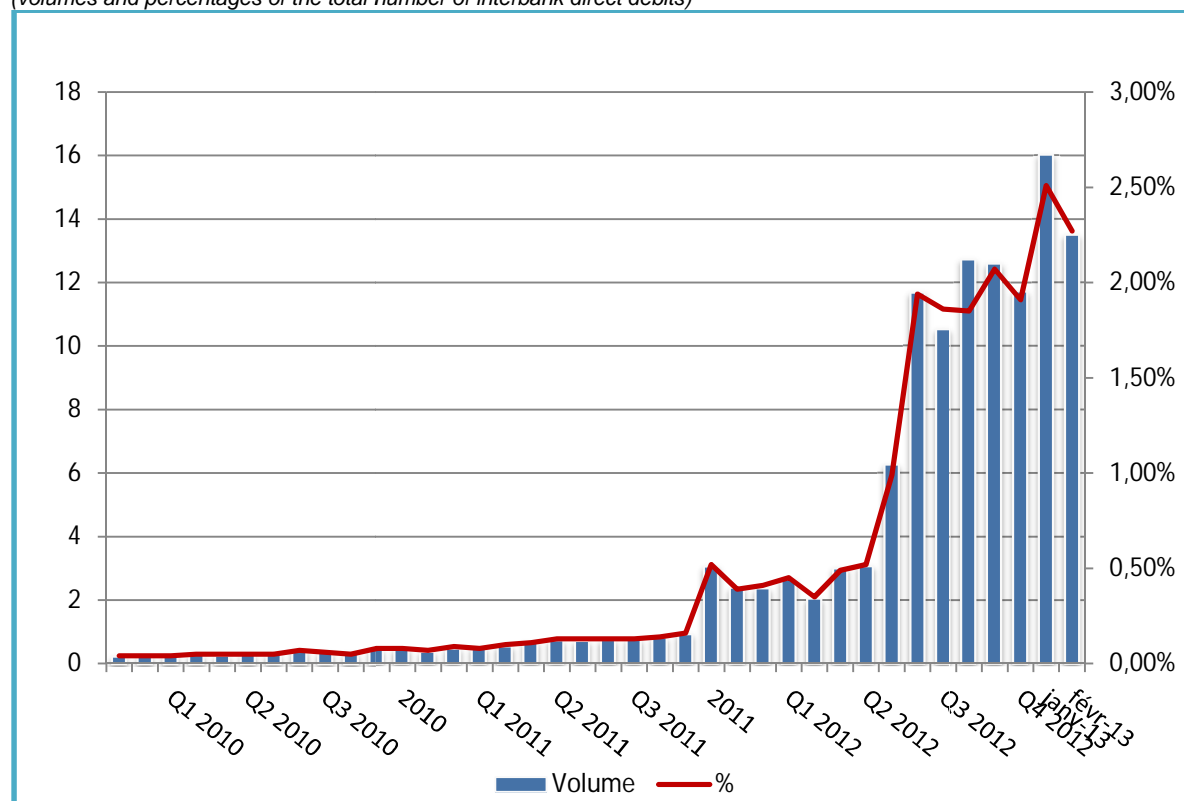
4.2.2 IN EUROPE

In Europe, migration to the European direct debit is still hesitant. Belgium sets by far the best European example when it comes to using European direct debits thanks to the migration in November 2011 of one of Belgium's biggest billers.

In Europe, migration to the SEPA direct debit is still rather hesitant. In view of the popularity of the direct debit in some countries, notably Germany, Spain, France, the Netherlands and Austria, and the major developments necessary for this migration, it seems that adequate measures need to be taken rapidly. A late migration could actually damage the reputation of this new payment scheme, a process that would consequently be difficult to reverse. This is why the European Central Bank, in its progress report on the migration to SEPA, insists that a major proportion of domestic direct debits needs to have migrated by the end of the third quarter of 2013. In order to give migration a real boost, payment services providers not only have to adapt their transmission channels but also have to help familiarise their customers, be they debtors or creditors, with the technical, commercial and legal aspects of the migration to the SDD.

CHART 5: Direct debits in the SEPA format (2009 - February 2013)

(volumes and percentages of the total number of interbank direct debits)



Source: ECB

In the above chart, the sudden rise in the figures in November 2011 marks the arrival on the scene of one of Belgium's biggest billers. This migration obviously had a very small impact on the total share of European direct debits in the total number of direct debits in Europe, which is still only marginal at around 0.5 %. After that, it was the arrival of cross-border direct debits that affected the increase in the number of direct debits made in the SEPA format. The discussions between national representatives of the different central banks suggest that migration to the European direct debit should receive a major boost for all countries during the second half of this year.

4.2.3 THE ELECTRONIC MANDATE

A good many Belgian companies are anxiously awaiting implementation of the electronic mandate to facilitate processing and archiving of the data needed for the European direct debit.

Under the SDD scheme, administration and storage of the mandates must be carried out by the creditor instead of the customer's bank. Implementation of the electronic mandate should make these tasks – which are new to businesses - easier for them. Well aware of this need, the Belgian banks and the EPC are laying the necessary foundations for the sound functioning of this scheme, at both operational and legal level.

Within Febelfin, the Belgian banking sector federation, a working group has been set up to look at the solutions that could best respond to business expectations. The conclusions are expected shortly.

At the European level, the EPC is carrying out similar work on establishing a model electronic mandate that corresponds to market requirements.

5 GOVERNANCE OF THE PROJECT

In its current formation, the SEPA Council is the highest body at European level following the transition to SEPA. A revised framework governing its tasks and objectives was due to be put forward by the European Commission in June 2013.

Up until now, it has been the SEPA Council that has accompanied the migration to SEPA at European level. It works under the presidency of the European Central Bank (ECB) and the European Commission. One of this Council's objectives is to make sure that all stakeholders in Europe are involved in the process.

However, members of the SEPA Council are currently discussing the need to adjust their working mandate which is restricted to promoting the completion of SEPA by bringing together the highest authorities of the parties concerned and seeking a consensus for the following steps in the transition to SEPA.

Under the new plans, the SEPA Council would be renamed the 'European Retail Payments Council' thus reflecting a wider mission than currently defined. In future, the SEPA Council is expected to carry out more of a steering role and take strategic decisions at the highest level of authority by reconciling all parties' positions. A second level would be set up comprising specific groups of participants who would be working on precise questions. The accent would be on a market-participant-based cooperative approach, with the European Commission and the Eurosystem playing an advisory role in the directions-taking. The EPC, in its capacity as owner of the SCT and SDD schemes, would be in charge of their administration and updating.

At the same time as the publications on the review of the Payment Services Directive and the Regulation on interchange fees for card transactions, the European Commission was due to issue its proposals for this new governance strategy.

But while this future European Retail Payments Council would be a strategic decision-maker at European level, the expertise, practical knowledge and contacts with the various stakeholders would nevertheless continue at national level. For this reason, entities responsible for social dialogue have rapidly been set up in each country in the SEPA zone to encourage exchange of information between the European and national levels. These 'SEPA Programme Management Offices' provide a forum for organising discussions on strategic questions concerning retail payments and, for the time being, the general migration to SEPA. Reflecting the general European trend, these entities should soon take on a wider direction and see their mandates open up to wider fields of reflection such as development of innovations in retail payments, standardisation of card payment instructions, etc.

6 THE FUTURE OF SEPA

6.1 REVIEW OF THE PAYMENT SERVICES DIRECTIVE

The objective of the Payment Services Directive⁵ is full harmonisation of the payments market. In view of the rapid development of the market, the European Commission will be putting forward a proposal to amend this Directive, along with its new governance project.

Several avenues are currently being explored in the drafting of this revised legislation, and the main ones are summarised below:

In order to minimise any differences that may arise in the processing of the various payments, the Commission is proposing to extend the scope of the Payment Services Directive to payments where only part of the transaction is made in euros ("one-leg"), that is payments made between the Single Market in euros and the rest of the world.

There is currently an EU Directive governing transactions made with electronic money (e-money Directive). It seems that it could be easily integrated into the Payment Services Directive, thus permitting fuller harmonisation of its concepts.

Owing to the growth of transactions and means of making payments, the question of access to bank accounts over the internet for effecting bank transactions, for example, is now broached not just in terms of security but also in terms of information, privacy and data protection, and liability. The proposal to amend the Directive thus incorporates a set of rules for accessing payment accounts, and some security rules governing payments, and more specifically for payments made over the internet, by card or on a website offered by a payment service provider.

The external analytical work was finalised in February 2013. During April, internal consultation took place within the Commission's services and translation work was started on the draft. The proposal to amend this Directive was expected by the month of July this year but will then have to be negotiated and agreement reached on making the proposed harmonisation as efficient as possible so that it can receive the final rubber-stamp by the European Parliament and the Council.

6.2 REGULATION ON INTERCHANGE FEES FOR CARD TRANSACTIONS

At the same time as the draft review of the Directive on the means of payment is released, the Commission will be proposing a new Regulation to legislate in the area of interchange fees for card transactions.

Once a clear set of rules has been laid down for these interchange fees, and consequently the uncertainty surrounding the necessary investment has been lifted, the European Commission is hoping to encourage the emergence of a European card scheme to compete with existing international schemes. Indeed, since the launch of the SEPA project, the European authorities have been suggesting that the process of migration to SEPA would lead to the emergence of a European payment card scheme. But in actual fact and although the market for payment cards is big enough to make room for greater competition, there has been very little progress in this area.

⁵ Transposed into Belgian legislation under the Law of 10 December 2009 on payment services and the Law of 21 December 2009 on the status of payment institutions, access to the activity of payment service provider and access to payment systems.

This Regulation along with the review of the Payment Services Directive were singled out as priorities in the communication accompanying the publication of the Single Market Act II in October 2012.

6.3 THE EUROPEAN PAYMENT CARD

Apart from the European Commission's work on regulations governing interchange fees for card transactions, the EU institutions are hoping that the market will be able to bring about gradual harmonisation of certification rules, standards used and services offered.

As far as certification rules are concerned, some degree of harmonisation is already emerging within the SEPA zone. The certification rules for cards and terminal seems to be converging not only in terms of content but also at the level of approval of the certification bodies.

While the market still uses different communication standards from those recommended for SEPA which meet the ISO20022 standards, it is nevertheless moving inexorably towards the use of corresponding XML standards. However, major and highly complex developments are necessary for ensuring this changeover and can only be undertaken after an in-depth analysis of the project by the different parties involved.

Lastly, as regards services offered by cards for making payments, there is some degree of standardisation occurring here, too. These are only "basic" services that do not have any impact on more advanced levels of detail.

6.4 INNOVATIONS

SEPA will not stop with the migration of domestic direct debits and credit transfers to their European equivalents. The trend towards an increasingly integrated and constantly innovative European payments market will continue to be monitored and encouraged, at both European and national levels.

It was for this reason that the European Commission also held a specific consultation on "new" means of payment at the beginning of 2012. The Commission is thus working on establishing the expectations and requirements of the different stakeholders in the payments market with respect to the future of SEPA, payments by card, over the internet and mobile telephony.

The ever-growing proportion of on-line payments (e-payments) and payments by mobile phone (m-payments), and especially the widespread use of smart phones is transforming the payments environment and leading to the emergence of new payment applications, like electronic wallets or payment applications uploaded onto telephones, for example. The European Commission's idea here is to assess the extent to which the SEPA payment instruments could serve as a basis for more integrated and more secure innovations in the field of payments.

The responses gathered via this consultation, which ended in April 2012, have been published and are available on the internet⁶. Initial summaries of the findings are expected shortly and will help set priorities for future discussions and guidelines to be taken in the field of retail payments.

⁶ http://ec.europa.eu/internal_market/payments/cim/index_en.htm

7 CONCLUSIONS

The migration of national credit transfers and direct debits to their European versions in the SEPA format must be completed by 1 February 2014.

Belgium is not planning to ask for any derogation. The entire Belgian banking community has offered their customers the European credit transfers since January 2008, and, since November 2009, has also provided European direct debits in their basic version, with a large part of the banking community also offering them in their Business-to-Business version.

While the **migration to the European credit transfers is stagnating at around 63 % in Belgium**, it is notably on the rise for all countries that had fallen behind a bit. After a very slow start to the European direct debit, one of the main creditors in Belgium opted, in late 2011, to switch over to the European direct debit, which brought the European direct debit's market share up to a range of between 12 and 15 % in one go. At the beginning of this year, some big businesses started their analysis and development process for making the move. Since the process is rather complex, **most of these large enterprises will be changing over to the European direct debit during the course of the third quarter of this year**. A further rise in the migration rates can therefore be expected. However, a large number of firms operating on the market for integrated management and accounting software (ERP) still have to adapt their products to make them compatible with the new SDD standards.

A series of communication measures have been put in place to raise the visibility of the project and increase awareness of its implications for all those concerned.

With the deadline set by the EU Regulation for completing migration to the European versions of the credit transfer and direct debit fast approaching, the attention of each participant in this process needs to be aroused and focused on the necessary investment still to be made. At the same time, publication of the EU Regulation fixing an end date for completing the SEPA project has enabled easier and more direct communication. A range of communication measures designed to promote this project have those been put in place, both at European and national level.

In Europe, among the noteworthy actions has been the **publication by the European Central Bank of its first progress report on the migration to SEPA** and the establishment of a special working group whose mandate is to organise communication on the project by sharing and spreading national information. More recently, the Ecofin Council issued a set of Conclusions at its meeting on 14 May 2013 in which it stresses not only the rapidly approaching end date for completing the migration to the European credit transfers and direct debits, but also the importance of communication at national level so as to raise awareness about the project and especially among small and medium-sized enterprises as well as public administrations and local authorities.

In Belgium, the financial sector has further stepped up its own a communication with its client base. Febelfin, the Belgian financial corporations' federation, has undertaken a good many actions since 2008 by informing its members, mainly banks operating in Belgium, of the impact of the migration to the European payment instruments. Since then, the banks have taken a series of individual initiatives to inform their external and internal clients, whether by sending out e-mails, by updating their home banking websites or by organising information sessions for their customers, both inside and outside.

Furthermore, in its role as promoter of the migration to SEPA, **the National Bank has stepped up the number of meetings targeted on each type of participant** so as to provide the best possible response to their specific questions and has further developed the section on SEPA of its website by offering several communication tools that can be reused by federations or companies individually thus enabling them to pass on the information to their members and other internal staff.

Furthermore, some firms have taken the initiative to arrange communication actions privately as they switch over to the new European payment instruments.

With the arrival of the Regulation on the end date setting out extra arrangements for stepping up consumer protection in the use of the European direct debit, consumer representatives are proposing to explain these measures in detail and to examine how the banks are putting them into practice. A special article should soon be devoted to them in a consumer rights magazine.

Each of the sectors involved in this project has now taken a whole host of communication decisions, whether individual or sectoral, so as to pass on all the elements needed for a successful migration by 1 February 2014. **What remains to be done now is to assess the impact of these initiatives on each of the stakeholders concerned, and more specifically the impact on small and medium-sized enterprises.**

The European Commission will shortly be publishing its review of the SEPA governance and will widen the remit of the future European Retail Payments Board.

Still with a view to providing the best possible back-up to the changes ushered in by the migration to the SEPA credit transfers and direct debits, but also as part of the wider challenges involved with greater harmonisation of retail payment instruments in the EU, **the European Commission has taken the initiative to review the way the project's governance is organised.** The informal SEPA Council would be renamed the European Retail Payments Council, reflecting a wider mission than it currently has. In the future, this Council would have more of a steering role and would take strategic decisions at the highest level of authority by bringing together the positions of each stakeholder. A second level of governance would be established, comprising specific groups of participants who would work on precise questions.

Of course, the date of 1 February 2014 is not the end of the SEPA project. **The migration vers les European credit transfers and direct debits is just one stage in the road to harmonising means of retail payment.** Last year, the European Commission launched preparatory work on revising the Directive on the means of payment so as to take account, *inter alia*, of certain rules on access to payment accounts, or security rules governing payments, and more specifically payments made over the internet, by card or on a payment services provider's website. Moreover, the European Commission also held a specific consultation on the new means of payment at the beginning of 2012.

While the 1 February 2014 date marks a stage in the harmonisation of the means of payment, the move towards an increasingly integrated and constantly innovative European payments market continues to be closely monitored and encouraged, at both European and national levels.

ANNEX: ECOFIN PRESS RELEASE



**COUNCIL OF
THE EUROPEAN UNION**



Council conclusions on SEPA (Single Euro Payments Area)

*3238th ECONOMIC and FINANCIAL AFFAIRS Council meeting
Brussels, 14 May 2013*

The Council adopted the following conclusions:

"The Council:

1. REITERATES its support for the aim of the Single Euro Payments Area (SEPA): to achieve an integrated, competitive and innovative internal market for retail payment services in euro in the EU and where no distinction between cross-border and national payments in euro is made.
2. WELCOMES the successful entering into force of Regulation (EU) No 260/2012 on 31 March 2012 which sets an end-date for migration from national credit transfer and direct debit schemes to harmonized SEPA credit transfer (SCT) and SEPA direct debit (SDD) schemes by 1 February 2014 for payments in euro in euro area Member States; and CONFIRMS that this is a significant step towards a truly integrated market for retail payments in euro.
3. REGRETS that the current SEPA migration in Member States, with few exceptions, is far from being complete (as identified by a recent report of the European Central Bank). RECOGNISES that of all SEPA participants SMEs, small public administrations and local authorities are the least aware about SEPA migration and the least prepared for actual migration; and NOTES that some stakeholders seem to be planning for a late SEPA migration and therefore may be exposed to undue operational risks impacting smooth handling of payments.

P R E S S

4. STRESSES that the end date for migration to SCT and SDD is rapidly approaching and that immediate efforts are required by all market participants to complete the SEPA migration in euro area Member States by 1 February 2014, where applicable; UNDERLINES that the provisions of Regulation (EU) No 260/2012 have to be fully respected by all market participants in euro area Member States; and EMPHASISES that competent authorities should cooperate intensively, on a national and international level, to ensure effective and harmonized compliance with the Regulation.
5. UNDERLINES that end-users such as “big billers”, SMEs and public administrations have their own responsibility to ensure SEPA migration. STRESSES that all payment orders which are not submitted in the format requested by Regulation (EU) No 260/2012 after 1 February 2014 may not be processed by all Payment Service Providers in euro area Member States, which otherwise would be sanctioned; and INVITES merchants, corporates, SMEs and public administrations to immediately take the necessary concrete internal steps for becoming ready for SEPA in adapting their information systems accordingly and communicating their IBAN details when invoicing customers, where applicable.
6. CALLS upon all Member States to significantly intensify communication measures primarily at national level to eliminate existing public awareness gaps, especially vis-à-vis SMEs, small public administrations and local authorities; INVITES euro area National Central Banks, Ministries of Finance and other competent authorities, national banking federations and individual banks to enhance Communication activities on SEPA migration before summer 2013 through all relevant media channels, e.g. general press, professional press, billboard advertising, radio or TV, where these have not been successfully initiated already. INVITES the European Commission and the European Central Bank to provide assistance and advice to the best of their abilities to fully support the SEPA migration process and to call on SEPA Council members to step up communications to their constituencies about the importance of respecting the deadline for SEPA migration.
7. STRESSES that concrete and specific actions are of high importance beside general information campaigns in order to ensure that the information really reaches those SEPA participants which are not aware of or prepared for SEPA at this stage.
8. CALLS on banks and other payment service providers to familiarise end-users on technical, business and contractual issues related to SEPA migration (e.g. familiarize consumers with new SEPA features such as the IBAN) and to provide substantial assistance in order to facilitate their migration efforts; and ENCOURAGES banks to provide for individual information letters addressed to their clients, particularly corporates including SMEs, for raising awareness on SEPA and explaining what it entails in terms of necessary adaptations.
9. INVITES chambers of commerce, professional organisations such as e.g. those representing accountants as well as associations representing local authorities or cities to reach out to their constituencies or clients and providing them with specific information about SEPA."