

# Dr. Anikó Turján and Judit Brosch: Single Euro Payments Area (SEPA): Full speed ahead!\*

*In 2001, a study was conducted for the European Commission looking at the intra-Community cross-border credit transfers of 40 private individuals. The equivalent of EUR 100 was transferred in each transaction. The 1473 credit transfers examined took 3 business days on average to reach the payee. On one occasion, the funds took 43 days to arrive while 2 credit transfers remained 'in transit' for months. The cost of the credit transfers was so high as to bring into question the expediency of the transactions. The total average cost of credit transfers executed successfully exceeded 23 euro while the most expensive transaction cost almost 61 euro.<sup>1</sup> In contrast, the overwhelming majority of credit transfers within Member States were executed within 1 day, typically costing euro cents or at most a few euro. Considering the creation of the single internal market and the introduction of the euro, this situation was unsustainable, and therefore, in order to change this situation the vision of the single euro payments area (SEPA) was born. The objective was to execute payments in euro as efficiently and cheap as possible, providing the same rights, obligations and basic terms irrespective of borders and assuring that a single payment account in any Member State is sufficient to make euro payments within the EU.*

*The first article on SEPA was published in the MNB Bulletin in September 2008. In the four years since then, significant progress has been made particularly in the field of two major products: credit transfers and direct debits denominated in euro. After the initial, fundamentally market-driven process and self-regulation, in 2012 the Regulation of the European Parliament and of the Council<sup>2</sup> eventually established uniform rules and requirements for credit transfers and direct debits denominated in euro as well as the end-date by which migration from the previous, diverse national legacy products to such credit transfers and direct debits must be completed. By default, the migration must be completed by 1 February 2014 in the euro area and by 31 October 2016 in non-euro area countries.*

*Now there is no more finger-pointing and waiting for others to act: everyone can go full speed ahead. Under the compulsion of the EU Regulation, even more payment service providers (banks, savings cooperatives and other institutions participating in payment services) will offer SEPA products, further information campaigns will stimulate demand from customers, intensifying competition may improve the terms of payment services, and national migration plans will push for the changeover, thus there is every hope that the share of euro credit transfers based on SEPA standards will increase even faster from the 27.3 per cent level seen in April 2012 in the euro area. In Hungary, 1 July 2012 is already a special date in this process as the intraday HUF credit transfer system launched in Hungary on that date is based on SEPA standards.*

## INTRODUCTION

Following the proposal of the European Commission in December 2010, the Hungarian EU Presidency, through the general approach adopted at the Council stage, made a substantial contribution to finalisation of the EU Regulation in the first half of 2011, and thus we would also like to share first-hand information on this subject with the readers of the literature. Our article will also discuss the effects of the EU Regulation on Hungary.

The introduction of the euro has made it possible on the one hand and necessary on the other hand to integrate the retail payment systems that have evolved in a fragmented manner at the national level. The appearance of euro cash made it particularly visible that different country-by-country standards, data content and execution times are applied to non-cash retail payments. Despite the single internal market, charges for cross-border credit transfers were higher, and the execution times for cross-border credit transfers were longer, than in the case of national

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\* The views expressed in this article are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

<sup>1</sup> European Commission (2001), Retail Banking Research (2001).

<sup>2</sup> European Parliament and Council (2012).

**Table 1**  
**Summary of the abbreviations used in the article**

Abbreviation	Concept	Additional explanation
BIC	Business Identifier Code	Code used for identification of payment service providers.
EPC	European Payments Council	A body emerging as a result of self-organisation of European banks to support and promote SEPA. Currently it consists of 74 members.
HCT	Hungarian credit transfer (denominated in forints and based on SEPA standards)	Standard used in the Hungarian intraday clearing system launched on 1 July 2012.
IBAN	International payment account number identifier	It can be used anywhere.
MIF	Multilateral interchange fee	Income distribution used in certain Member States in case of direct debit transactions, from the payment service provider of payee to the payment service provider of payer.
PSD	Payment service directive	Directive transposed within the European Economic Area.
SCT	SEPA credit transfer	Payments scheme developed by the EPC and based on the use of IBAN, BIC and unified message (UNIFI ISO 20022 XML) standard.
SDD	SEPA direct debit	Payments scheme developed by the EPC and based on the use of IBAN, BIC and unified message (UNIFI ISO 20022 XML) standard and creditor mandate flow.

Source: MNB.

payment transactions. The full benefits of the single currency and of the real common market can be enjoyed only if a single euro payments area (SEPA) also emerges within which economic actors, using a single payment account, can make and receive euro payments anywhere in the same way as in their home countries.

The representatives of the European banking community outlined this specific vision as a target in 2002. Subsequently, in order to dismantle existing technical barriers and to elaborate uniform pan-European payment schemes, they established the European Payments Council (EPC). The European Commission (Commission) has focused on regulatory work to dismantle legal barriers and the relevant legal acts were adopted by the European Parliament and the Council in cooperation with the Commission. The European Central Bank (ECB), in addition to providing a legal opinion on the relevant draft legislation, also participated actively as a catalyst in the entire SEPA process. Payment service providers and infrastructures (clearing houses) participated in the elaboration of the payment schemes and the framework rules applicable to clearing houses and translated them into practice, embarking on investment projects as required. Customers started using the resulting payment schemes.

In terms of geographical coverage, SEPA at present encompasses the 27 EU Member States, Iceland, Liechtenstein, Norway, Switzerland and Monaco. The SEPA process covers the entire payment traffic denominated in euro; in this article, however, we focus exclusively on the

two payment instruments relevant for our selected subject: credit transfers and direct debits.

## ANTECEDENTS

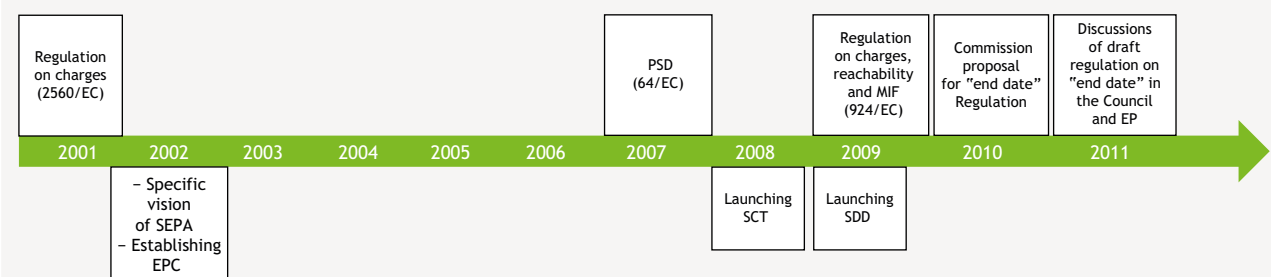
The major milestones of the SEPA process, in respect of credit transfers and direct debits, are shown in Chart 1. The most important actions of public entities are shown above the time axis, the key actions of market actors below the axis, up to the end of 2011.

- Regulation (EC) No. 2560/2001 of the European Parliament and of the Council can be regarded as the forerunner of the SEPA process by providing that charges for cross-border electronic payments and credit transfers under a specified value limit denominated in euro<sup>3</sup> shall not be higher than charges payable for similar national payment transactions.
- In 2002 the specific vision of SEPA was born at the initiative of the market, and the EPC was set up to facilitate its development and implementation.
- In 2007 Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market (PSD) was adopted, setting a uniform framework in the whole of the European Economic Area for payment services provided in euro or in the currency of a non-euro area Member State. The Directive removed a number of obstacles that had hindered the standardisation of retail payments, and also regulated the execution times.

<sup>3</sup> Initially EUR 12,500, then from 1 January 2006 EUR 50,000.

Chart 1

## Key milestones of the SEPA process



Source: MNB.

- On 28 January 2008, SEPA credit transfers (SCT) were launched, meaning euro credit transfers with the mandatory use of the international payment account number identifier (IBAN), the business identifier code of payment service providers (BIC) and the unified international message (UNIFI ISO 20022 XML) standard. The data standards laid the ground for straight-through-processing within the entire SEPA. The payment scheme was developed by the EPC through self-regulation and taking into account extensive public consultation, and in compliance with the provisions of the PSD; payment service providers voluntarily joined (and may continue to join) the payment scheme by signing an adherence agreement committing themselves to abide by its terms. The rulebooks and implementation guidelines underlying the scheme may be updated year by year.
- In 2009 Regulation (EC) No 924/2009 of the European Parliament and of the Council was adopted. This Regulation, preserving the principle of equal charges for national and cross-border payment transactions denominated in euro, imposed reachability requirement and deadline on the payment service provider of the payer (if the payer is consumer) in respect of direct debits denominated in euro. The latter means that if a payment service provider offers direct debit services on the national market, that is, if it makes possible direct debit in favour of a domestic payee, it must also make the same service available to foreign payees. The Regulation also stated that payment service providers could continue to charge multilateral interchange fees (MIF) up to 1 November 2012.
- On 2 November 2009 SEPA direct debits (SDD) were launched, which are based on the creditor mandate flow used in some Member States and followed the directions set by the SCT in terms of standards (IBAN, BIC and the message standard) and the process of development. The core version of the payment scheme is to be used for

direct debit if the payer is a consumer (i.e., it is similar in nature to the Hungarian core direct debit), while its other version is for business-to-business direct debit transactions (i.e. it can be compared to the direct debit based on a letter of authorisation in Hungary).

The Commission published its proposal for the 'end-date' regulation in December 2010, which was discussed in the subsequent year both in the European Parliament and in the Council. By the end of 2011 political agreement had been reached on the Regulation, and the communication of the approved final migration date also started at that time. The Regulation was promulgated in March 2012.

### SWITCH FROM THE FUNDAMENTALLY MARKET DRIVEN PROCESS TO REGULATION BY LEGISLATION

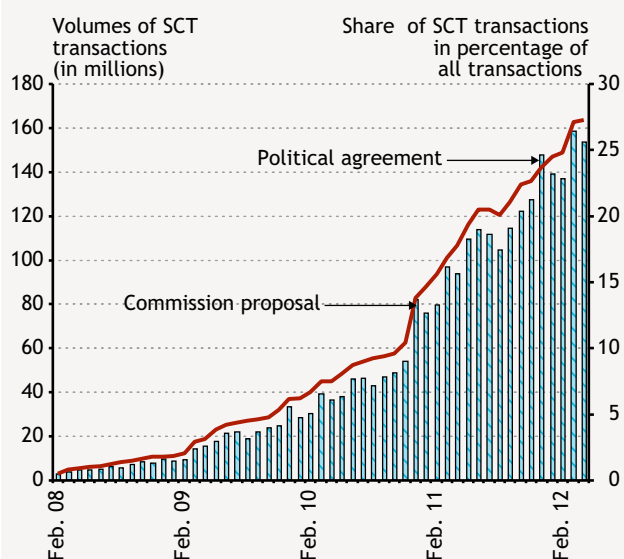
The SCT and the SDD were introduced upon the initiative of the market, as a result of self-organisation; nevertheless, legal regulation was adopted. In the following, we discuss the causes of this change.

The migration to the use of the SCT, and particularly of the SDD, proceeded at an extremely slow pace. In the euro area the so-called SCT indicator (the share of SEPA transactions compared to the total number of euro credit transfers) passed the 10 per cent level first in November 2010, then 20 per cent in June 2011. Chart 2 reveals that migration to the SCT was accelerated by the communication following the proposal of the Commission for the 'end-date' regulation and then the political agreement.

The SDD indicator (the share of SEPA transactions compared to the total number of euro direct debits) in the euro area is still below 1 per cent. Chart 3 reveals that even communication failed to substantively change the pace of SDD migration.

**Chart 2**  
Number and share of transactions processed in SCT format in the euro area

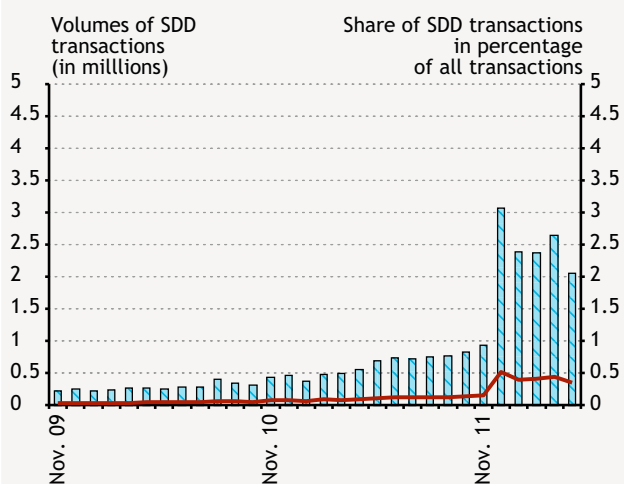
(between February 2008 and April 2012)



Source: MNB using ECB data.

**Chart 3**  
Number and share of transactions processed in the SDD format in the euro area

(between November 2009 and April 2012)



Source: MNB using ECB data.

Authorities (ECB,<sup>4</sup> Commission<sup>5</sup>) attributed the slow pace of migration to the use of SEPA transactions to the following key factors.

- There was uncertainty concerning the timing of the completion of the SEPA process and of the withdrawal of legacy products as well as the longer-term applicability of interchange fees in direct debit transactions. Only some countries set specific target dates for migration to SEPA products, while the EPC could only achieve such an agreement within the banking community that critical mass should be reached by the end of 2010. There was even increased uncertainty in respect of the applicability of the interchange fee, because in some Member States (Belgium, France, Italy, Portugal, Spain and Sweden) the payment service provider of the payee pays an interchange fee to the payment service provider of the payer. In March 2009, however, the Commission and the ECB issued a joint statement that made it clear that on the one hand they both considered the transparent pricing of payment services to be a tool to facilitate efficiency and on the other hand the Commission – as competent authority regarding legal issues of competition – no longer considers it justified and to be in compliance with the EU competition rules to maintain the interchange fee after 2012.
- Both payment service providers and businesses postponed investments relating to SEPA products due to the uncertainty of the end-date for migration.
- Incentives for SEPA product development were missing on the side of payment service providers as they continued to offer their legacy products.
- On the demand side there was little awareness of SEPA. In the context of consumers, the SDD must be mentioned specifically; even though it was modelled on successful national direct debit schemes, it became a completely new payment scheme even in the countries where the payees used to handle mandates prior to 2009 as well. It would have been imperative to assure consumer protection and security relating to the new payment scheme, and even more important to create that sensation.
- It became evident that for migration en mass it is not sufficient that payment service providers join the SEPA payment schemes or that Regulation 924/2009/EC imposed a reachability requirement on them in respect of direct debits with high transaction numbers (so-called core direct debit, which corresponds to the Hungarian core direct debit apart from the currency).

<sup>4</sup> Source: ECB (2010).

<sup>5</sup> Source: Commission (2010b).

– Gridlock emerged: as long as the legacy products are available and payment service providers engage in no active SEPA communication, users also postpone making use of SEPA products. Thus the supply and demand sides were mostly waiting for each other to take the initiative.

The Commission quantified the effects of migration from legacy products to SEPA products in a six-year period under slow and fast migration scenarios. Slow migration was based on the assumption of no change in regulation and communication while for fast migration, the effect of the legal regulation on the end-date of migration was estimated. The Commission calculated, for the economy of the EU, a loss of EUR 42 billion if migration is slow and a gain of EUR 123 billion in case of fast migration. For more details, see Dávid (2008).

## THE KEY ISSUES OF REGULATION AND THEIR SOLUTION

In our analysis we rely on publicly available information but indirectly, when discussing certain topics, we also shed light on the background of political compromises reached during the Hungarian presidency. In the context of each key issue it was important to keep in mind the fundamental objective of the EU Regulation: to enforce the use of uniform payment instruments universally and uncontroversially, by a specific date (the 'end-date'), which will dispel any doubt market actors may have concerning the reality of migration.

– **How to define the target: pan-European credit transfers and direct debits denominated in euro? Can (should) the SCT and SDD be specified?**

While the EU Regulation is geared towards migration to SEPA, the word 'SEPA' occurs only in the preamble to the Regulation. The legislators specified the target state of pan-European euro credit transfers and direct debits through technical and business requirements (e.g. use of IBAN, ISO 20022 XML message standard) that fit the SCT and SDD, but compliance is not restricted to the exclusive use of the SCT, SDD or their present versions. Thus there is room for competition, innovation and development. Another argument against specifying SCT and SDD is the fact that these payment schemes are owned and managed by the EPC, and thus due to the regular review and the concomitant minor or major amendments of the SCT and SDD rulebooks, legislators would have found that the product and standard underlying the EU Regulation change during the legislative process or in the course of implementation. This would have invested the EPC with de facto legislative powers, which the EU legislators understandably wished to avoid.

Nevertheless, in order to promote SEPA migration, the EU Regulation sets interoperability requirements for the payment schemes to be used by payment service providers for credit transfer and direct debit transactions that pertain to the number (share) of participants in the payment schemes. By default, this requirement means that the majority of payment service providers operating in the majority of Member States and, simultaneously, the majority of payment service providers operating in the whole of the EU must join the payment scheme. Obviously, at present the SCT and the SDD are the only payment schemes to satisfy that requirement as the number of participants is between 3,500 and 4,500. Nevertheless, legislators have not ruled out the possibility of the emergence of a new payment scheme and provide for the possibility of a temporary exemption as long as payment service providers from at least 8 Member States have joined the new payment scheme.

Still, the widespread use of the SCT and SDD would improve economies of scale and increase efficiency, and thus legislators, while maintaining the possibility of innovation, competition and development, specified technical and business requirements to fit the SCT and SDD.

To maintain flexibility, legislators opted for an arrangement in which the substantive part of the EU Regulation only includes payment account identifier and message format while the specific identifier and message format are indicated in the Annex. (The same method applies to the definition of the data elements of payment transaction related messages.) In a delegated act, the Annex can be amended by the Commission following an adequate consultation procedure, which makes it faster and easier to take account of technical progress and market developments.

*Thus, the EU Regulation specifies the target state of pan-European euro credit transfers and direct debits through technical and business requirements (e.g., use of IBAN, ISO 20022 XML message standard) that fit the SCT and SDD, but compliance is not restricted to the SCT or SDD. The payment schemes to be applied are subject to the participation requirements defined as a percentage of the number of payment service providers. (Articles 4 and 5 of the EU Regulation as well as its Annex.)*

– **What should be the end-date? Should there be a single end-date or multiple ones? How to determine the end-date(s)?**

For the selection of the end-date, the main consideration was to have it be as soon as possible, while allowing



sufficient time for preparation. The objective was namely on the one hand to avoid the high cost of the parallel use of legacy and SEPA products and on the other hand to achieve the benefits resulting from the use of SEPA products as soon as possible. In other words, to be able to use a single standard in the entire area as soon as possible and to avoid penalising those who have already migrated to SEPA, but are also forced to maintain procedures for handling legacy products due to others dragging their feet.

Within euro-area payment transactions, which constitute the overwhelming majority of payment traffic, the legislators differentiated between core products and relatively smaller-volume niche products (special types of transactions on some local markets with a small number of transactions) as well as other special direct debit transactions meeting local needs and generated using a payment card. Within all credit transfer and direct debit transactions denominated in euro, transactions within and outside the euro area are treated separately. The objective was to set the earliest possible end-date for the euro-area core products, which represent a major part of the payment traffic.

It was also important, though, that the end-date specified could be communicated as early and as clearly as possible to dispel the uncertainty that had caused the slow pace of migration. Thus, the end-date of migration is defined as a specific calendar day. The communication of that date started as early as December 2011, before the formal adoption of the EU Regulation. For the sake of simplicity, the end-date is the same for the migration of credit transfers and direct debits to SEPA, while it is slightly delayed as compared to the euro-area core products on the one hand for niche products and direct debit transactions generated using a payment card and on the other hand for transactions in countries outside the euro area.

*By default, migration must be completed by 1 February 2014 in the euro area and by 31 October 2016 in non-euro area countries. The detailed end-dates are set out in Articles 6 and 16 of the EU Regulation; these as well as other deadlines are summarised in Table 2 and Chart 4.*

**– How can the uniform nature of the EU internal market be increased further?**

The requirements concerning the reachability of payment service providers and full user mobility all serve to assure that within the EU no discrimination shall be possible based on nationality or place of residence in respect of credit transfer and direct debit services. This is because a number

of payment service providers had refused to open payment accounts for foreign citizens or businesses, and thus the freedom of choice of the users to choose payment service provider was narrowed, and they were unable to exploit the theoretical benefits of the internal market (Articles 3 and 9 of the EU Regulation).

The rules governing the interoperability of payment schemes cannot be different for national and cross-border transactions, which is also conducive to the increasingly uniform nature of the internal market (Article 4 of the EU Regulation).

**– Is it necessary to regulate the interchange fee charged for direct debit transactions, and if so, how?**

The interchange fee is a fee established jointly (multilaterally), paid by the payment service providers of the payees to the payment service providers of the payers (consumers) in respect of direct debit transactions. The payment of such fees is not a general practice: within the EU it is in force – in addition to Sweden – only in 5 euro area Member States, but in those countries concerned it is charged on each direct debit transaction. The legislators considered the interchange fee as a restriction of competition particularly due to the way it is charged: it is set by the banks jointly, without any competition in its level. The payment service provider of the payee pays the interchange fee to the payment service provider of the payer, but in reality it is passed on to the user, that is, the payee. The payee, in turn, incorporates it into the price of the utility or other services underlying the direct debit transactions – thus eventually the consumer pays the fee without even seeing and knowing its size. Consumers, in contrast, can use this payment instrument without paying any direct fee or for a modest fee because their payment service provider receives the interchange fee, thus there is no need to charge any (cost proportionate) fee directly to the consumer.

As the direct debit works efficiently in all the other Member States without any interchange fee, furthermore, on the whole banking fees are not lower in the countries using the interchange fee, payees may employ a transparent fee policy and use discounts or other methods to directly encourage their customers to choose direct debit as the payment instrument.

*Following a transitional period, the EU Regulation expressly prohibits the use of interchange fees for both national (after 1 February 2017) and cross-border (after 1 November 2012) transactions (see also Table 2 and Chart 4). By contrast, in the event of non-executed*

*direct debit transactions, the so-called 'R-transactions' an interchange fee may be applied strictly on cost basis, allocating the costs to the party that has caused the R-transaction. The level of the costs must be adjusted to the direct costs of the most efficient payment service provider that is a representative participant of the multilateral agreement in terms of the number of transactions and the nature of services (Article 8 of the EU Regulation).*

**- How to increase consumer confidence in direct debits?**

The SDD, and thus also the EU Regulation, relies on the payee (or a third party on its behalf) to keep and store the mandates for direct debit. By contrast, in a number of Member States, as in Hungary, the mandate is kept and stored by the payment service provider of the payer (consumer) and not by the payee. Consequently, in such countries consumers must be assisted in adapting to and accepting the change for direct debits denominated in euro.

*Therefore, the legislators ensured the right of consumers to limit direct debit collections to a certain amount and/or periodicity, to block direct debits initiated by specified payees or to authorise direct debits initiated exclusively by one or more specified payees. Furthermore, payers have the right to instruct their payment service provider to verify the compliance of the direct debit transaction with the mandate before its execution whenever the payer is not entitled to a refund<sup>6</sup> (Article 5 of the Regulation).*

This is an important change because the SDD scheme developed by the EPC does not yet contain all the elements to guarantee the increased security of consumers, and thus the SDD scheme and products will have to be modified after the entry into force of the Regulation to satisfy the legislators' expectations.

**- Which binding legal instrument is the most appropriate to achieve the above objectives?**

Due to the need for the broadest possible technical standardisation, legislators opted for the binding Regulation of the European Parliament and of the Council. The Regulation is an act of general application; it is binding in its entirety and directly applicable in all Member States, and thus it exerts its effects sooner than a Directive, which, after its adoption, must be transposed separately in each Member State into the national law of the Member State by the deadline specified in the Directive. The ECB is also entitled to issue binding regulations relating to clearing and payment systems. Still, the scale was turned towards a Regulation of the European Parliament and of the Council because legislators wished to regulate the entire payment chain as the benefits of fast migration appear mostly on the demand side and this is how requirements can be set in respect of payment service users (customers).

*The requirements affect payment service providers and/or users (the latter are affected partly directly and partly through payment service providers). In the longer term, the only obligation on users is the use of the IBAN and specific data elements. The XML message standard is obligatory only for payment service providers and those users which initiate or receive individual credit transfers or direct debits bundled for transmission and are not consumers or microenterprises (Article 5 of the EU Regulation and its Annex).*

The EU Regulation contains a number of other important provisions but, due to size constraints, this article focuses only on the most important ones; Table 2 and Chart 4, however, cover a broader scope in respect of deadlines.

It is clear from the chart that migration will mostly be completed by 1 February 2014 for credit transfers and direct debits denominated in euro and completely, at the latest, by 1 February 2017, together with establishing interoperability between payment schemes and systems. The end-date outside the euro area is 31 October 2016. Thus, the basic terms, standards, rights and obligations will be the same within and outside the national borders in the entire EU, irrespective of the place of residence, for the payment services concerned.

<sup>6</sup> The Regulation also provides for the validity of mandates and right to a refund (Article 7 of the Regulation).

**Table 2**  
**Migration deadlines**

Topic	Additional information	Deadline
Establishing reachability	Euro area Member States	31 March 2012
	Non-euro area Member States	31 October 2016*
Final deadline for migration	Euro area Member States: basic products	1 February 2014
	Euro area Member States: niche products** + other special direct debit transactions, meeting local needs and generated using a payment card	1 February 2016
	Non-euro area Member States	31 October 2016*
Elimination of MIF in case of direct debit transactions	Cross-border transactions	1 November 2012
	National transactions	1 February 2017
Establishing interoperability	Euro area Member States	1 February 2014
	Non-euro area Member States	31 October 2016*
Elimination of the obligation for users to provide BIC	National transactions (in euro area Member States)	1 February 2014***
	Cross-border transactions (in euro area Member States)	1 February 2016
	Non-euro area Member States	31 October 2016*
Expiry of conversion services (from domestic payment account number to IBAN) provided to consumers	Euro area Member States	1 February 2016
	Non-euro area Member States	31 October 2016*
Expiry of waivers to use ISO 20022 XML standard in case of users to initiate or receive bundled payment transactions (provided they are not consumers and microenterprises)	Euro area Member States	1 February 2016
	Non-euro area Member States	31 October 2016*

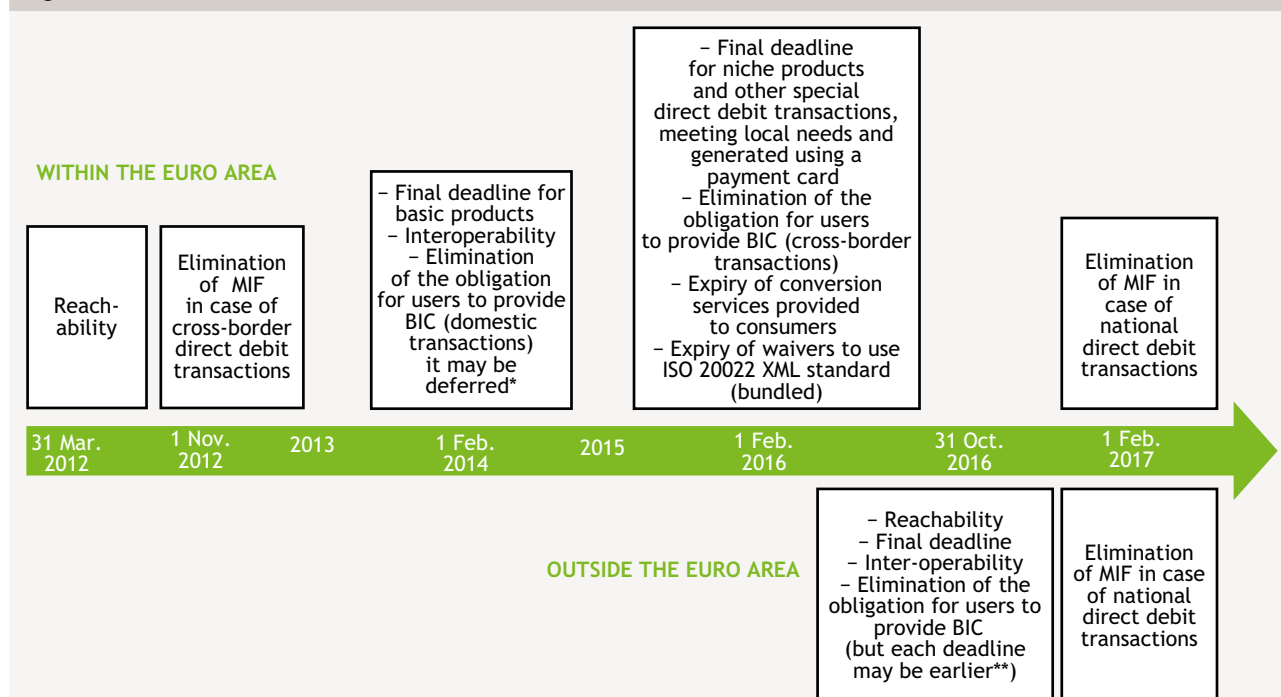
\* Or within 1 year of the date of the introduction of the euro, if the euro is introduced in the Member State before 31 October 2015. But not earlier, than in the euro area Member States.

\*\* At the most 10 per cent of credit transfer or direct debit transaction executed in the Member State.

\*\* It may be deferred until 1 February 2016.

Source: MNB.

**Chart 4**  
**Migration deadlines within and outside the euro area**



\* It may be deferred until 1 February 2016.

\*\* Or within 1 year of the date of the introduction of the euro, if the euro is introduced in the Member State before 31 October 2015. But not earlier, than in the euro area Member States.

Source: MNB.



## EFFECTS ON HUNGARY

### – What tasks does the EU Regulation impose on Hungarian legislators?

Regulations of the European Parliament and of the Council are binding on Member States and are directly effective in their legal regulation. Where required, the legislators of Member States must assure compliance between national and European legal regulation by amending their national regulations (repealing conflicting rules) if the national legal regulation contains provisions incompatible with an EU Regulation.

The EU Regulation does not amend the PSD,<sup>7</sup> and therefore it is not necessary to amend the Hungarian legal regulation<sup>8</sup> transposing the PSD. The Hungarian core direct debit can be regarded as the core direct debit scheme defined in the EU Regulation but, unlike in the SDD model, in Hungary the mandate is stored by the payment service provider of the payer and not by the payee. Considering that the EU Regulation applies exclusively to direct debit denominated in euro, the provisions of the MNB decree concerning direct debit must be amended only when the euro is introduced.

By contrast, the provision of the EU Regulation requiring Member States to designate a competent authority responsible for assuring compliance with the EU Regulation and to lay down rules on penalties for infringements of the EU Regulation (and to notify thereof the Commission in 2013) does impose legislative responsibilities.

### – What tasks does the EU Regulation impose on Hungarian payment service providers?

The EU Regulation has no direct effect on the activity of Hungarian payment service providers in respect of the overwhelming majority of national payment transactions (executed in forint), and this will continue to be the case

until the introduction of the euro in Hungary as the EU Regulation applies exclusively to credit transfers and direct debits denominated in euro. Naturally, in respect of credit transfers denominated in euro, be it cross-border or national, Hungarian payment service providers as senders and receivers must assure compliance with the requirements set out in the EU Regulation (before the introduction of the euro in Hungary) by 31 October 2016, that is, by the end-date specified for non-euro area Member States.<sup>9</sup> (The same holds true for cross-border direct debit transactions denominated in euro, the volume of which is negligible at present.)

However, Hungarian payment service providers must take into consideration that by default, euro area Member States must comply with the requirements of the EU Regulation much earlier. Thus the format and data content of most credit transfers denominated in euro coming from euro area Member States will satisfy the requirements set out in the EU Regulation after 1 February 2014. Consequently, Hungarian payment service providers must prepare in time for receiving such euro credit transfers because otherwise after 1 February 2014 they would be unable to participate in cross border euro payments sent in favour of customers in Hungary.

The timely preparation of the Hungarian credit institution sector is promoted by two factors. First, 24 Hungarian credit institutions have already joined the SCT and one also the SDD, and the share of SCT-based credit transfers denominated in euro already exceeded 40 per cent in the second half of 2011. Secondly, following 1 July 2012 the intraday clearing system for retail credit transfers denominated in Hungarian forint was launched in Hungary. The credit transfer is based on the HCT standard, which is very similar to the SCT standard, and its launch is attributable to the regulation of the central bank in addition to the several years of preparatory work in conjunction with a wide range of market participants.

### Legal framework of the Hungarian intraday clearing system

Pursuant to the MNB Decree, from 1 July 2012 on, in accordance with the so-called '4-hour rule', the payment service provider of the payer must ensure that forint credit transfers submitted by users electronically within the time period specified for same-day execution (the final submission time) are received by the payment service provider of the payee within 4 hours of their acceptance. (In the case

<sup>7</sup> Nevertheless, in its preamble the EU Regulation notes that the SDD, the only existing pan-European direct debit scheme developed by the EPC, is not in compliance with the relevant provisions of the PSD in respect of the right of refund of the payer. Therefore, to assure high standards of consumer protection, the Commission must address the issue in its report on the effects of the PSD to be completed by 1 November 2012 and propose a review if required.

<sup>8</sup> Act LXXXV of 2009 on Providing Payment Services and Decree No. 18/2009 (VIII. 6.) MNB on execution of payment transactions (MNB Decree).

<sup>9</sup> Assuming that the euro is not introduced in Hungary before 31 October 2015.

of payment service providers only indirectly connected to the national payment system, the maximum of 4 hour time limit for execution is extended by 2 hours.) The payment service provider of the payee must credit the amount to the payment account of the payee 'without delay', however, the time requirement of that step is outside the responsibility of the initiating payment service provider.

The HCT is based on the SCT standard in UNIFI (ISO 20022) XML format modified to reflect the Hungarian peculiarities. The currency is the forint, and fillér<sup>10</sup> values other than zero may not be used, the national part of account numbers is in compliance with the Hungarian regulations. For the time being, the use of the HCT standard is mandatory only in the interbank space, i.e. in communication between payment service providers. For the relationship between users and payment service providers, implementation guidelines have been prepared in respect of UNIFI XML message format for HCT initiation, which can be used by payers depending on the terms published by the payment service providers. Simultaneously with preparation for the broader use of the HCT, the preparation of the HDD, the SEPA-based direct debit standard for forint transactions is under way. The Hungarian intraday credit transfer system launched following 1 July 2012 was the first step in the introduction of the national intraday clearing system; next steps will include increasing the frequency of cycles and extending its scope to direct debit transactions.

All of this will allow Hungarian businesses to use a standard similar to SEPA even though Hungary has not introduced the euro yet and to reap the benefits of straight-through processing.

## CONCLUSIONS

With the adoption of the regulation on the end-date and the increasing involvement of the demand side, the implementation of SEPA, which started as a fundamentally market-driven process, will be mostly completed in the field of credit transfers and direct debits by 1 February 2014.

Standards, requirements and rules have been specified for credit transfers and direct debits denominated in euro, which provide the same rights and obligations to all parties in the whole area, within national borders and across borders alike, intensifying competition on the supply side between payment service providers. For the demand side, this means that customers making use of payment services will be able to select the payment service provider most suitable for them in the completed internal market and

they will be increasingly capable of selecting one across the borders within the SEPA. In the case of individuals, this may be particularly important for persons living abroad for a length of time because they can enjoy the benefits offered by the single payment account in the form of simplified liquidity management. For other customers (primarily businesses, public bodies, etc.) this is enhanced by the UNIFI message standard underlying the requirements, which further improves consistency between the entire payment traffic and the underlying invoicing (including the management of incoming and outgoing invoices). All this means that based on a state-of-art, user-friendly standard the automation of processes and the centralisation of functions can be expanded not only geographically, but also in terms of internal operations.

More intense competition on the supply side increases economies of scale and efficiency, and as the Regulation does not preclude the evolution of new payment schemes, there is every hope that innovation will continue. Through economies of scale, more intense competition may place users in a better position in terms of charges relating to payment transactions.

The fact that the Hungarian intraday clearing system is based on the SEPA standard improves the chances of credit institutions and businesses operating in Hungary to win international payment or workout assignments and to become a regional payment hub within their company group.

The SEPA process will not be over with the implementation of credit transfers and direct debits in accordance with the pan-European requirements because harmonisation needs to be expanded to other payment products (such as payment cards) as well.

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<sup>10</sup> One forint is divided into 100 fillér.

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