



ANNUAL REPORT 2004

Dear Reader,

I am pleased to present to you our 2004 Annual Report. In this report we have set out the main achievements of our Council during the year, and we present a summary of the ambitious programme of work we are undertaking to create the Single Euro Payments Area.

EPC is a self-regulatory body bringing together banks from all parts of Europe. We operate in the co-operative domain, seeking on behalf of the payments industry and society at large to transform the euro payments landscape to meet the needs of clients and public authorities. We focus on those non-competitive aspects such as payment schemes, standards, inter-bank systems and practices and are deeply committed to the maintenance and enhancement of a competitive market place. We believe this to be to the benefit of banks and their customers alike.

We work closely with the regulatory community such as the European Central Bank, the Eurosystem, and the European Commission. We fully share their vision to promote a vast single market underpinned by ubiquitous and integrated payment systems to the benefit of economic efficiency and wealth creation. We are very mindful of the expectations set by our regulators.

EPC is co-ordinating a wide-ranging programme of change and development which will over time touch many people involved directly in the banking and payment industry and many other stakeholders, consumers, small and medium-sized businesses, merchants, large corporate enterprises and public sector organisations. The payment systems of the euro zone are varied and reflect many years of commercial practice and consumer behaviour in the countries concerned. Payments support every aspect of economic life and, as in the linguistic sphere, Europe is a rich and complex patchwork.

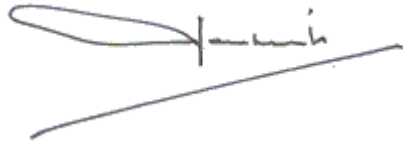
The plan to create and deploy pan-euro payment instruments, to see them adopted for use by those who find them convenient and then to see them develop and gradually replace existing national instruments is a straightforward vision, but one which requires enormous effort by all stakeholders, considerable financial resources, and a pragmatic approach to management. We must ensure that we re-use the best of what we have today and keep a simple clear vision of what has to be done at every step of the way.

In pursuit of EPC's objectives, we have prepared a Roadmap 2004-2010 which sets out our deliverables and timescale for action. The principal elements of this are provided later in this report.

The Roadmap was adopted by the membership in December 2004 and following a period of discussion at national level, in particular within the eurozone countries, in relation to implementation aspects, the Plenary discussed it again at its meeting in March 2005. In fully endorsing the Roadmap, the EPC adopted the Declaration below, fully committing itself to the SEPA programme and deliverables.

I would like to thank those involved in the work of the EPC. We work together in a fast-moving programme. Competitive and cost pressures are ever-present. Building consensus in a diverse group is not easy. I have found, however, that as we move forward there is a strong will to succeed, and we are well-placed as a payments community to deliver the expected results. 2005 will indeed be a decisive year on the road to SEPA.

Yours sincerely



Gerard Hartsink
EPC Chair

Declaration adopted by the European Payments Council Plenary
on 17th March 2005

We, the EPC, are committed to building the Single Euro Payments Area (SEPA) and have already delivered SEPA payment solutions which are in growing use by European citizens and corporates. We have approved and are delivering a Roadmap for the full realisation of SEPA.

We will deliver the two new Pan-Euro Payment Schemes for electronic credit transfer and for direct debits. We will also design a Cards Framework to define a single market for cards. The scheme rulebooks and the cards framework definition will be delivered by end 2005, and the services will be operational by January 2008.

We know from feedback from our community in the eurozone that by the beginning of 2008 the vast majority of banks will offer these new Pan-Euro services to their customers.

We are also convinced that a critical mass of transactions will naturally migrate to these payment instruments by 2010 such that SEPA will be irreversible through the operation of market forces and network effects.

SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities (consumers, SMEs, merchants, corporates and government bodies) and supportive public authorities. The community of European banks is strongly committed to this ambitious programme of action, based on self-regulation and a full recognition of the role of market forces and competition.

We have created the necessary conditions for success through commitment and consensus on the part of EPC and all its banking communities.

1. Introduction

The European Payments Council (EPC) is the decision-making and coordination body of the European banking industry in relation to payments. Our declared purpose is to support and promote the creation of the Single Euro Payments Area (SEPA). The vision for the SEPA was formulated in 2002 at the time of the launch of EPC, when some 42 banks, the three European Credit Sector Associations (ECSAs) and the Euro Banking Association (EBA) came together and, after an intensive workshop, released the White Paper in which the following declaration was made and subsequently incorporated into the EPC Charter:

We, the European banks and European Credit Sector Associations:

- *share the common vision that Euroland payments are domestic payments,*
- *join forces to implement this vision for the benefit of European customers, industry and banks and accordingly,*
- *launch our Single Payments Area.*

The EPC's intention is to create a Single Euro Payments Area, working as a single domestic payments market in which citizens and economic actors will be able to make payments as easily and inexpensively as in their hometown.

We define common positions for core payment services within a competitive market place, provide strategic guidance for standardisation, formulate best practices and support and monitor implementation of decisions taken. This is done in such a way so that banks can maintain self-regulation and meet regulators' and stakeholders' expectations as efficiently as possible.

EPC's focus is core payment services, both retail and commercial, in euro, in Europe. This includes a focus on electronic instruments such as credit transfers and direct debits, cards, cash and emerging channels such as e- and m-payments.

Amongst our critical success factors are the widespread acceptance of reusable standards and best practices which are simple, and easy to understand and implement. At the same time, attention is paid to reconciling the implementation of new solutions with the implications of legacy systems and to the need to progressively lower the cost base in the payments business. Above all, customers of the banking industry need to have access to payment services that are convenient, reliable and predictable, and represent good value for money.

Today, EPC consists of 64 Members coming from 27 European countries. It is composed of banks or banking associations representing all sizes and sectors of credit institutions across the market. The Plenary, and its constituent bodies and working groups meet on a regular basis and are responsible for undertaking a wide programme of activities. Over 250 professionals are engaged in our work programme. The three governance bodies (Plenary, Coordination Committee and Nominating and Governance Committee) are described in Section 2 -*Governance developments in 2004*. In Section 3 -*Reports of Working and Support Groups* - you will find reports on the activity of our six working and support groups.

The EPC maintains close relations with the European Central Bank (ECB) and the Eurosystem and with the European Commission, in particular DG Internal Market. The ECB closely monitors the work of EPC and published its Third Annual Progress Report 'Towards a Single Euro Payments Area' in December 2004. Section 4 -*Interactions and communication with stakeholders*- provides more information on this.

Section 5 reviews the reporting aspects of EPC activities. Section 6 is a summary of the EPC Roadmap 2004-2010, which spells out the deliverables of the SEPA programme.

2. Governance developments in 2004

Fair and effective governance is a critical dimension for EPC. Sound and balanced constitutional arrangements ensure that the Council is and remains a fully representative body, carrying the wide support of the European industry.

During 2004 the EPC adopted a comprehensive Charter, which was signed by the then 52 Members, followed by the new Members who joined EPC during the course of the year. Under the terms of this Charter EPC applied to the Belgian authorities for the status of an International Not-for-Profit Association or AISBL (Association Internationale Sans But Lucratif) and the Royal Decree in connection with this application was granted in February 2005. The Charter provides for the establishment of three standing bodies: the Plenary, the Coordination Committee and the Nominating and Governance Committee.

The Plenary remains at the heart of EPC governance and acts as its decision-making body. All other bodies and working groups report directly to it. It is composed of 64 senior representatives of EPC Members. These Members include individual financial institutions, banking associations (mainly national but including the Euro Banking Association) and the 3 European Credit Sector Associations (ECSAs): the European Association of Co-operative Banks, the European Banking Federation, and the European Savings Banks Group. The ECB participates with observer status. The Plenary conducts its business by means of Resolutions, which are binding on Members, as well as reports, position papers and presentations. During 2004 the Plenary met four times on 11 March, 17 June, 6 October and 10 December. Key Resolutions and decisions made in 2004 are provided in Appendix 1. In June 2004 elections took place for the Chair and other office holders of the Council.

The Coordination Committee has as its main task the guiding of the process,

assistance to the Working and Support Groups and the preparation of recommendations for submission to the Plenary. It is comprised of 25 Members elected by the Plenary and includes the Chair, the Vice-Chair, the Chairs of the Working and Support Groups and members representing other Plenary Members. The Secretaries General of the three ECSAs and the Chairs of their respective payment committees are ex-officio members of the Coordination Committee.

During 2004 the Coordination Committee met six times on 14 January, 23 February, 23 April, 2 June, 8 September and 16 November.

The Nominating and Governance Committee advises the Plenary in matters relating to nominations to EPC bodies, terms of reference and governance practices in general. It consists of three bankers from the Plenary together with the Secretaries General of the ECSAs. During 2004 new members from nine of the ten countries joining the European Union in 2004 were admitted to the EPC, namely Cyprus, Czech Republic, Estonia, Hungary, Latvia, Malta, Poland, Slovakia and Slovenia. Lithuania's membership is under review by the national community.

2004 also saw a reorganisation and transformation of the Working and Support Groups under a new structure and with new terms of reference. It was decided to focus four Working Groups on the four key instruments - electronic credit transfer, electronic direct debit, cards and cash. These are supported by two Support Groups: one for standards and infrastructure and one for legal issues. A diagram representing the new EPC structure is attached as Appendix 2.

As of 1 July 2004, EPC established a stand-alone secretariat with its own budget and staffing. The Secretariat provides management and administrative support for

EPC activities and operates the EPC extranet, in which communication and documentation management facilities are provided to Members and national communities. The Secretariat provides direct secretariat support to the Plenary, the Coordination Committee and the Nominating and Governance Committee.

Secretarial support to the Working and Support Groups is provided by the EPC Secretariat itself and by payment experts from the ECSAs. Through these collaborative arrangements, EPC has access to a large number of specialist resources. During 2005 EPC plans to create a comprehensive programme management and work planning framework as the work becomes increasingly delivery orientated.

EPC plays an important role in promoting standardisation. It works closely with standardisation bodies like the European Committee for Banking Standards (ECBS), SWIFT and EMVCo. During 2004 the governance of ECBS was aligned with EPC and the ECBS Board was reconstituted to consist of the EPC Coordination Committee plus a number of recognised standards experts. 2005 will bring further initiatives to integrate these activities even more closely.

The current holders of EPC offices and the list of EPC members are provided as Appendices 3 and 4.

3. Reports of Working and Support Groups

The EPC undertook a full programme of activities within the previous organisational structure during the first half of 2004. In the second half of the year the principal activities were the preparation of the Roadmap 2004-2010 and the start-up of the Working and Support Groups under the

revised structure. For the sake of simplicity the reports below have been organised according to the new structure and information about the first half-year activities has been grouped under the relevant section below.

Electronic Credit Transfer Working Group

Since its inception in September 2004, the focus of the Electronic Credit Transfer Working Group has been on its key deliverable, namely the extension by end-2005 of the Credeuro scheme, currently limited to credit transfers falling under Regulation 2560/2001/EC, into a scheme for all basic euro credit transfers in the SEPA.

The work plan of the Working Group reflects the EPC's updated vision and timetable. It shows stage by stage how the pan-European credit transfer scheme will be organised and delivered. The main outcome of the first meetings has been the creation of a "Credeuro2" scheme outline.

A gap analysis identified the need for an intermediate update of the current schemes and conventions, pending the completion of the full credit transfer scheme. A first work block began under the working title Credeuro 1.5. Their work will result in a combined Credeuro and ICP (Interbank Convention on Payments) as a minimum standard for retail cross-border credit transfers in the euro area by 1 January 2006.

A second work block started work on Credeuro2 scheme requirements definition and a third work block started a scheme modelling exercise building and agreeing the business, operational and technical model. The Group is maintaining a glossary and a risk and issues log to track all non-resolved issues and proposals for their resolution.

With regard to the EPC Credeuro, ICP and Receiver Capability conventions, an important landmark was passed at the end of 2004 as the EPC adopted a Resolution extending the scope of the three Conventions to EEA EFTA countries (Iceland, Liechtenstein, Norway). The move follows the Joint EEA Committee Decision 154/2003 of November 2003 to make Regulation 2560/2001/EC on cross-border payments in euro applicable in EEA EFTA countries.

The Working Group also initiated the separation of the former Electronic and Mobile Payments task force into two distinct e-Payments and m-Payments task forces operating under ECTWG supervision. Terms of reference and chairs were formally approved by the December 2004 Plenary meeting and work started in early 2005. The e-Payments Task Force will examine opportunities for cooperation in the web-merchants area and the m-Payments Task Force will focus on the use of mobile phones as a channel for payment initiation.

An analysis of cheques and of the need for a faster credit transfer scheme (Priuro) will be carried out in the first semester of 2005.

Electronic Direct Debit Working Group

The Pan-European Electronic Direct Debit (PEDD) Task Force was engaged in an intense period of activity up to June 2004, which saw the landmark passage of three resolutions by the EPC Plenary. These resolutions made the commitment to launch a Pan-European Direct Debit Scheme and initiate a detailed requirements specification stage.

The new Electronic Direct Debit Working Group was launched in October 2004. Relying on past work in the Task Force and the adopted resolutions, it progressed at a rapid pace, with scheduled monthly meetings from October 2004 to June 2005. It intends to present a draft rule book covering all provisions in the Summer of 2005.

It set itself the initial objective to achieve consensus on remaining outstanding issues such as reachability, scope, enforceability, clarification of roles and responsibilities in terms of flow (including dates and mandate), scheme rules, costs and risks, and revocation. By the end of December 2004, the Working Group had reached an agreement on some of the crucial issues such as scope, definitions and time cycles, and was progressing well with the others. The compilation of a comprehensive glossary of PEDD-related terminology is ongoing.

The Working Group also provided expert input to the Legal Support Group in relation to those PEDD aspects that should be taken into account in the New Legal Framework Directive.

Cards Working Group

At the heart of the activity were the cards recommendations adopted by the EPC Plenary in June 2003. Particular attention was given to the recommendation requesting international and national card schemes to allow cross-border acquiring and multi-country issuing based on a single license, and the recommendation requesting the same schemes to present their Members' tariffs in a fully transparent manner – in effect moving towards a greater segregation between rules and brand management on one side, and processing on the other. International and national card schemes were requested to submit self-assessments of their compliance with these recommendations. These self-assessments were evaluated by the Working Group.

The Cards Working Group also established a quarterly monitoring of the progress (in terms both of cards issued, and capable terminals) of EMV implementation, in order to track acceptance of EPC

resolutions and further motivate market participants. The Working Group also continued to monitor, debate and in some cases take positions on market developments, e.g. with regard to the dynamic currency conversion and merchant surcharge initiatives.

Taking on board the experience from the above self-assessments, the December 2004 meeting focused on organisational matters aimed at ensuring that the Group would be in a position to deliver the SEPA Cards Framework by June 2005, as defined in the 2004-2010 SEPA Roadmap. This Framework will capitalise on the 2003 Findings and Recommendations, which are widely consistent with the ECB 3rd Progress Report.

The implementation of the recommendation to improve statistical reporting was progressed in co-operation

with the ECB, acting as a trusted third party to consolidate competitive market data. However this project could not yet be closed as initially expected. Several obstacles such as uniformity of data definition, data consistency and capability or willingness of some market participants to provide data, remain to be overcome.

The Card Fraud Prevention Task Force continued to monitor the implementation of the EPC Plenary's December 2003 Resolution and recommendations in relation to fraud. This included:

- The delivery of an opportunity and feasibility study on a European anti-fraud database. The Cards Working Group approved the study's findings.
- The development of an anti-fraud toolkit, available to all banks.
- A set of anti-fraud website links that will be made available by the European Commission on its best practices website.

- The formulation of a position on the European Commission's "Card Stop Europe" concept, which concluded that the proposal to establish a single number for cardholders to call in case of card loss or theft, although intellectually attractive, faced practical obstacles that undermined potential benefits.
- A position on the revision of the European Commission's Fraud Prevention Action Plan and the discussion on a new structure and mission for the Fraud Prevention Experts Group. Representatives of the Card Fraud Prevention Task Force will participate in several of the FPEG sub-groups that have now been established.

Cash Working Group

The implementation of the cash recommendations of January 2003 is ongoing with the progressive delivery of National Cash Plans by national banking communities. These Cash Plans have been instrumental in launching a debate at national level about the cost of cash for society and will be used as a basis for a possible pan-European strategy for banks to address this issue.

Following the adoption by the EPC Plenary in December 2003 of a Resolution on National Central Banks' core functions as regards cash, a dialogue was started with the ECB on this matter. Adopted by the ECB Governing Council in December 2004, the Framework on the recycling of Euro banknotes is the first outcome of a fruitful dialogue process, with regular joint meetings throughout 2004 between the EPC Cash Working Group and the ESCB Banknote Committee. The good cooperation model established between the EPC and the ECB will be instrumental to progress in 2005 the other issues highlighted in the EPC Resolution.

Steps have also been taken to implement the Resolution adopted by the EPC Plenary in December 2003, on facilitating cross-border cash transportation in the Eurozone. A survey on banks' product requirements for an intra-EU "cross-border" cash transportation service was launched, and a dialogue established with the European Security Transportation Association (ESTA) regarding legal obstacles to such a service. In parallel, the Cash Working Group closely monitors legislative initiatives from the European Commission, the latest being the Directive of the European Parliament and the Council on services in the internal market – COM(2004) 2 final/3.

Following the approval by the EPC Plenary of the resolution defining a European set of banking best practices for cash handling in June 2004, the formulation of requirements for standardisation has been started in several priority areas: common European standards for banknotes stained by protection devices, a common European standard for euro coins and banknotes packaging, and a European Service Level Agreement model for the outsourcing of cash handling activities to cash-in-transit companies.

Through its participation in the Euro Cash User Group co-chaired by the ECB and the European Commission, the EPC opposed the proposed introduction of very low denomination (€1 or €2) banknotes and in November 2004, the ECB announced that the Governing Council had decided not to proceed, assessing that, on balance, the negative aspects of introducing very low denomination banknotes would outweigh the benefits.

On 20 February 2004 EPC representatives met with the European Commission Anti-Fraud Office (OLAF) to discuss the latter's draft proposal for a harmonisation of euro coin authentication methods. It also raised ideas for further collaboration between OLAF and the EPC with regard to implementation of Article 6 of Regulation 1338/2001/EC and the opportunity of organising a joint 2-day awareness-raising seminar on euro counterfeiting for banks and other professional cash handlers – which will be held in collaboration with the ECB and the EC (OLAF) in April 2005.

Legal Support Group

Since its inception the Legal Support Group (LSG) has decided to focus on three areas: the draft Proposal for a Directive on a New Legal Framework for Payments in the Internal Market (NLF), the Financial Action Task Force (FATF) proposals relating to money laundering, and issues arising in relation to the implementation of EPC resolutions by the banking and payment industry.

With regard to the NLF proposal, the Legal Support Group has actively pursued previous EPC representation work which had been conducted during the 2004 in relation to draft versions of the NLF proposal. This included participation in Payment Systems Market Group (PSMG) meetings of the European Commission, in-depth bilateral discussions with the Commission throughout the summer and autumn, and position-taking on each new release. The fifth draft NLF proposal submitted for consultation by the Commission in December was similarly analysed both within the LSG and at the subsequent PSMG meeting on 13 and 14 December. It was the subject of an updated position from the EPC in mid-January 2005. In preparing these responses there has been very close co-operation with national communities and the ECSAs and in the process the EPC has gained valuable experience in consensus building.

EPC has paid close attention to the FATF Special Recommendation VII on information accompanying wire-transfers.

In June, it raised the Commission's awareness of its concerns and proposed a number of workable solutions, such as consideration of the EU as a single jurisdiction, agreeing a common interpretation of batch transfers and the setting-up of thresholds. The Commission agreed to take these concerns into account and tabled some of them in the general negotiations with the FATF. These negotiations are still in train. In the meantime the Commission decided to press ahead with its own initiative and, in Autumn 2004, it initiated an EU legislative proposal, reflecting in large part EPC positions.

Implementation of EPC resolutions is at the core of the EPC governance objectives. Its resolutions need to generate wide support so they can be duly implemented at European and national level. Non-implementation, or incomplete implementation, of self-regulatory rules entails the risk of further binding EU regulation and missed business opportunities for banks. The Legal Support Group felt at its first meeting that, in order to sustain EPC's credibility as a self-regulatory body, the EPC should reflect on its role in the monitoring of the implementation process. As a first step, it decided to examine the way EPC resolutions are being implemented at national level. This analysis is currently underway.

OITS Support Group

Prior to the establishment of the Operations, Infrastructure, Technology and Standards (OITS) Support Group, the subjects within its scope received attention in the STP (Straight-Through- Processing) Working Group and in the Infrastructure Working Group.

In 2004 the former group focused on standardisation of the treatment of returned credit transfer transactions, with a view to enhancing the STP performance of the industry. It also examined the core data set for handling credit transfers and the ways in which it should develop in terms of additional services to accommodate the intended future processing of domestic payments within the Pan-European Automatic Clearing House (PE-ACH) Framework. These findings have now been forwarded to the Electronic Credit Transfer Working Group for further development.

The Infrastructure Working Group met for the last time in March 2004.

Having achieved all of its original terms of reference, its final deliverable was the production and wide distribution of a paper concerning the impact the PE-ACH will have on industry practices in the SEPA. On the firm foundation of the work on infrastructure proposals, the OITS Support Group is in a strong position to focus on the standardisation process, whilst continuing to monitor the implementation of the previous work.

The OITS Support Group held its first meeting on 30 November, and began the task of developing the outline of a scheme framework to be used for the payment instruments in the SEPA programme. This framework was extensively reviewed and has been adopted by the Payment Instrument Working Groups as a template. It also made progress in planning the next steps for standardisation activities in 2005.

TARGET Working Group

EPC closely monitors the work of the TARGET Working Group, which was established prior to the formation of EPC. The TARGET Working Group represents the European banking industry in liaising with the Eurosystem in relation to issues arising at an operational level in TARGET. It is also managing the industry response to the

TARGET2 programme currently underway. The group is supported by the European Banking Federation as its secretariat. Despite EPC's focus on retail payments services, TARGET2 is clearly an essential building block for SEPA. Further details of TARGET2 developments are covered in Section 4.

4. Interactions and communication with stakeholders

European Central Bank and the Eurosystem

The EPC participated in the three meetings of the Contact Group on Euro Payments Strategy (COGEPS) organised in collaboration with the ECB in February, June and November 2004. The meetings are co-chaired by the Director-General of Payment Systems and Market Infrastructure of the ECB and the Chair of EPC.

The meetings gave EPC Members, National Central Bankers and ECB representatives the opportunity to update each other on issues of common interest such as the proposal for a Directive on a New Legal Framework for Payments in the Internal Market, developments in achieving the Single Euro Payments Area (SEPA) and EPC activities in relation to governance of the SEPA project and working groups.

In September 2004 Mrs G. Tumpel-Gugerell, member of the ECB Executive Board spoke at the EPC Coordination Committee strategy off-site and addressed herself to the payments industry with her speech entitled "Time to act: clear objectives and a convincing roadmap for the Single Euro Payments Area". She also spoke at the EBA Association conference at their AGM in Budapest on May 27

"Towards deepening or broadening the SEPA?" and followed-up with a speech at an EFMA conference on 21 September on "Card Payments and European Financial Integration". All of these public pronouncements, as well as the 3rd ECB Progress Report which was published in December 2004, testified to the strong encouragement on the part of ECB in relation to the EPC mission.

The EPC welcomed the ECB's intention to create a shared platform solution for TARGET2 to be delivered in January 2007. In a letter dated 28 May, the TARGET Working Group responded to the general functional specifications, indicating that it agreed with the proposal to evaluate the possibility of rationalising the number of (more than 100) ancillary systems to achieve greater cost savings.

On 24 September the EPC Chair and the Chair of the OITS Support Group met with the ECB to review a refined version of the draft ECB recommendation on standards for SEPA which was expected to become part of the ECB Progress Report 2004 on Retail Payments.

European Commission

EPC maintained close and regular contact with the Commission as did the ECSAs, who provide EPC with a wealth of experience in dealing with all levels and functions within the European Institutions. Many national banking and payment associations also maintain frequent contacts. Mention has previously been made to the active consultation in relation to the proposed New Legal Framework.

The New Legal Framework will provide an essential platform for the SEPA project and the internal market. Europe needs a harmonised legal framework for payments

that should balance the interests of providers and users of payment systems, and not seek to regulate where market forces and self-regulation can achieve the desired results.

EPC is most concerned that the regime of liability, the coverage, and the regulatory regime to be applied to other providers of payment systems is proportionate and fair to the European banking industry and this message has formed the basis of the continuing dialogue with the Commission during and since 2004.

Other Stakeholders

The dialogue with bank customers of all types regarding the plans for SEPA mainly falls to the members of EPC and the national community organisations that support them. EPC maintains contacts with a variety of representative associations at European level as do the ECSAs. As the

SEPA schemes develop and become more concrete these dialogues will become increasingly critical and EPC plans to provide its members and the stakeholders with timely and substantial information so as to engage them in the process of building the SEPA.

5. Summary of SEPA Indicators Reports

The EPC collects proprietary statistics on a regular basis in order to monitor the implementation of SEPA initiatives. They are shared widely within the banking industry and with the ECB and Eurosystem.

From the delivery of quarterly statistics by national banking communities and the PE-ACH operator(s), considerable progress was registered over the past year. For example, some 450 credit institutions, representing the majority of the institutions involved in cross-border payments in Europe and representing 80% of cross-border flows, had signed the Credeuro Convention by the end of 2004.

Similar progress was made with regard to direct PE-ACH Receiver Capability. By the end of 2004, 22 European countries had created a direct receiver capability, and 4 more were expecting to join by the end of the first quarter of 2005.

Crucially, IBAN and BIC codes are now being distributed automatically to customers by banks in 21 European countries.

6. Summary of Roadmap 2004-2010

At an off-site strategy meeting in September 2004, the EPC Coordination Committee conducted an in-depth review of EPC's direction and focus for the years ahead. Working in small brainstorming groups, the result became the new Roadmap 2004-2010, which was presented to the EPC Plenary in December and adopted by a Resolution with unanimity among those represented and voting.

Under the terms of the Resolution, the Roadmap was referred to national banking communities to seek views on the implementation aspects in particular, for discussion at the March 2005 Plenary.

The Roadmap is provided in the following pages.

Roadmap 2004-2010

Introduction

This Roadmap has been developed for the European Payments Council (EPC) and its communities to provide a description of the way forward for delivery of the Single Euro Payments Area (SEPA) programme.

Following a review of the background to the EPC and its activities, it provides a refined definition and scope for SEPA, building on the original 2002 vision, and presents the key deliverables and priorities for EPC in the period ahead. A timeline is provided, supported by clear objectives for the six areas of focus represented by the current EPC Working and Support Groups,

four responsible for payment instruments and two for supporting the areas of standards and legal respectively.

The final section reviews the role of stakeholders in adopting and implementing the SEPA and the pan-European payment instruments that will be delivered. This Roadmap is a 'living' document and will evolve. It will also form the basis for other communication presentations and more detailed descriptions tailored for specific audiences.

1. Roadmap Objectives

The EPC's SEPA Roadmap 2004-2010 has been revised to take into account not only the level of progress achieved to date but also the ECB Governing Council's vision, recent political and regulatory developments, as well as experiences in the period since the EPC was established. The objectives have been updated accordingly:

1. To reaffirm the vision set out in the 2002 White Paper 'Euroland, our Single Payment Area' and in the EPC Charter,
2. To clarify the definition and focus of SEPA,
3. To establish the EPC's priorities and to identify the associated deliverables that will be required for the realisation of SEPA,
4. To put in place an industry action plan and timetable with milestones for the defined deliverables,
5. To reinforce cooperation between banks and banking communities in relation to the adoption and implementation of SEPA payment instruments,
6. To mobilise other players and stakeholders to achieve their buy-in and commitment to SEPA objectives,
7. To provide a toolkit for communication.

2. Background

The introduction of Economic and Monetary Union and the euro have set the foundations for the development of an integrated European market for goods and services. From a political and regulatory perspective the goal is the creation of a Single Market underpinned by a Single Euro Payments Area.

In 2002 a workshop was held to consider ways of making SEPA a reality, the conclusions of which were consolidated into the White Paper 'Euroland: our Single Payments Area'. The EPC was subsequently established in June 2002 to

facilitate the development and implementation of SEPA in line with the industry vision and the associated Roadmap as laid out in the White Paper.

At the end of 2004 the EPC undertook a review of progress towards SEPA and whether the EPC goals remained in line with industry and regulators' expectations. A number of factors, including strong messages originating from the ECB and the Eurosystem, have led to an upgrade of this plan as expressed in the Roadmap 2004 - 2010.

2.1 *Summary of the 2002 SEPA Workshop and White Paper*

The workshop referred to above took place in Brussels between 25 and 26 March 2002, attended by 42 banks, the Euro Banking Association and the three European Credit Sectors Associations (ECSAs) namely the EACB, EBF and ESBG, representing all geographic areas and all types of institutions (co-operative, commercial and savings banks) to consider how the European Union could be transformed into a Single Euro Payments Area. A high degree of consensus was reached on a number of issues, with recommendations being consolidated into a White Paper entitled, "Euroland: Our Single Payments Area!" issued to workshop participants in May 2002.

The White Paper articulated the rationale and commitment to industry action, which remains as valid today as when it was first

published. It pointed out the need for convergence between domestic and cross-border payments in euro and created an emerging common vision of SEPA, which has been broadly accepted and understood.

The White Paper made recommendations in relation to Customer & Business Requirements, Straight-Through-Processing (STP), Infrastructure, Cards and Cash. It identified the payment instruments required to support SEPA and the need for a Pan-European Automated Clearing House (PE-ACH) framework. It also proposed an over-arching governance structure, which became the European Payments Council.

2.2 Establishment of the European Payments Council

The European Payments Council (EPC) is now the decision-making and coordination body of the European banking industry in relation to payments. The declared purpose of the EPC is to support and promote the creation of SEPA.

The EPC defines common positions for core payment services within a competitive market place, provides strategic guidance for standardisation, formulates best practices, and supports and monitors implementation of decisions taken. This is done in such a way as banks can maintain self-regulation and meet regulators' and

stakeholders' expectations as efficiently as possible.

The EPC underwent both re-structuring and expansion in the second half of 2004. It now consists of 64 Members, composed of banks and banking associations. It and its constituent bodies and working groups meet on a regular basis and are responsible for an ambitious set of deliverables. Over 250 professionals are engaged in the work programme of the EPC from 27 countries and representing all sizes and sectors of credit institutions across the market.

2.3 The EPC and the Banking Industry's Record to Date

Since its inception the EPC, in conjunction with the banking industry, has made some notable progress towards the creation of SEPA, formulating and implementing a number of resolutions and recommendations as well as working towards establishing a new, more integrated and co-ordinated, governance model.

For example, within its first nine months the EPC implemented Credeuro and the Interbank Convention on Payments (ICP), with a high penetration of IBAN and BIC for 'cross-border' intra-EU payments impacted by Regulation 2560/2001. The first PE-ACH operator (EBA STEP2) became operational in July 2003. A set of Cards and Cash-related recommendations is now being implemented, recognising the

key importance of these instruments, and Plenary has also approved a resolution on the use of payment alternatives to cross-border cheques. EPC Members have indicated their clear commitment to create a Pan-European Direct Debit (PEDD) scheme, endorsing three PEDD-related resolutions at the June 2004 Plenary.

With completion of the EPC Charter signing process in June 2004, the EPC's governance framework was formalised, with the Plenary as the decision-making body. A Cooperation Model has been established with the ECB (Eurosystem) and the European Commission, with the EPC now identified as the interlocutor for the European payments industry, supported by the three ECSAs.

2.4 Factors driving an upgrade to the Roadmap

The experience of the EPC since its establishment in 2002 has been one of broad success against the original objectives. But it has encountered a steep learning curve and has seen differing perceptions of SEPA emerging among its membership community. The Roadmap defined for 2002-2010 in the original White Paper was clearly ambitious, and there have been slippages against the milestones then defined. There have also been significant recent political and regulatory changes within Europe, such as the expansion of the EU from 15 to 25 Member States.

A Directive on a New Legal Framework for Payments in the Internal Market is in the course of development. It is seeking to establish an open and competitive playing field, incorporating rules for fair and proportionate consumer protection coupled with maximum harmonisation of the legislative framework for payments, and it is likely to impose new obligations on payment service providers that need to be taken into account within the SEPA Roadmap.

At the same time, regulatory actions such as Directive 5/1997 and Regulation 2560/2001 have proved to be blunt instruments, whereas it is strongly held that the banking industry could develop more effective approaches on the basis of self-regulation.

The need for a sharper definition of SEPA going forward was evident. Uncertainty needed to be dispelled concerning the geographic focus of SEPA, in particular the relative emphasis on the eurozone (EU12) or a wider definition (EU25 + 4 EFTA).

There has been a clear need on the part of the EPC to create more focus on its real deliverables over the next 24 months to create strong forward momentum. This required a review of current work in progress to ensure alignment with priorities. It is also important to ensure clarity of roles and responsibilities for all players engaged in SEPA, and focus the resources of banks and their associations towards implementation.

2.5 The ECB's Vision of SEPA

Over the past five years the ECB has issued a number of reports¹ regarding the establishment of SEPA. More recently, in September 2004 Gertrude Tumpel-Gugerell, Member of the Executive Board of the ECB, delivered a speech entitled, "Time to act: clear objectives and a convincing roadmap for the Single Euro Payments Area" to the EPC Coordination Committee Members at the EPC strategic offsite meeting.

This set out the ECB's expectations and vision of SEPA, views that were reiterated in other conference presentations and in the ECB's Third Progress Report on Retail Payments approved by the Governing Council and issued in December 2004. This outlined a number of delivery targets and invited the EPC "to reconfirm its commitment to the SEPA White Paper and to present a convincing project plan with realistic milestones".

The ECB report states, "a real SEPA will be achieved [for citizens in the euro area] when they can make payments throughout the whole area from a single bank account, using a single set of payment instruments, as easily and safely as in the national context today". It is seeking delivery of a "SEPA for citizens" by 2008, with cross-border and national use of pan-European instruments such as Credeuro (using IBAN), Prieuro (a priority payment scheme), Pan-European Direct Debit (PEDD) and Cards.

More specifically, the ECB and the Eurosystem are looking for Credeuro and the associated ICP to "become the compulsory minimum standard" for Regulation-compliant retail payments (i.e. currently up to €12,500) by January 2006, whilst "euro area citizens should have

Credeuro and Prieuro as optional standards for national credit transfers from 1 January 2008".

The ECB believes that a PEDD service should be made available as an option for national payments by 1 January 2008 and for euro-area wide use by 2010. From a Cards perspective, "Interoperability among card schemes will need to be achieved so that cardholders who request it will be able to use their cards in the same way nationally and within the SEPA well in advance of the 2010 deadline".

It adds that by 2010 the transformation of infrastructures should be fully underway, either by the conversion of national infrastructures into pan-European infrastructures (i.e. such that there are no-longer parallel domestic and cross-border systems), or by their elimination as several PE-ACH operators gradually absorb payment volumes across Europe.

The Eurosystem supports the PE-ACH concept and envisages completion of a SEPA for infrastructure (i.e. a consolidation of market providers) with a target date of 2010. Thus, between now and then, the expectation is that banks, as users or as shareholders of the existing systems, will choose either to "close the system and to move to another infrastructure or to transform proven and efficient national arrangements into a PE-ACH-compliant system".

This updated Roadmap is in large part the EPC response to these high-level ECB aspirations.

¹ Improving cross-border retail payment services – The Eurosystem's view, September 1999

Improving cross-border retail payment services – Progress Report, September 2000

Towards an integrated infrastructure for credit transfers in euro, November 2001

Towards a Single Euro Payments Area – (2nd) Progress report, June 2003

3. EPC's SEPA Vision, Definition and Focus

Based on the foregoing background, the remaining sections of this paper set out the provisions of the revised Roadmap. In this section, the key objectives of the Roadmap are clearly stated, so as to reaffirm the

EPC's vision. It also clarifies the definition and focus of SEPA in terms of geographic coverage.

3.1 EPC's SEPA Vision Statement

The vision agreed at the March 2002 SEPA Workshop and subsequently documented in the White Paper remains unchanged:

"We, the European banks and Credit Sector Associations,

- Share the common vision that Euroland payments are domestic payments,
- Join forces to implement this vision for the benefit of European customers, industry and banks,
- And accordingly, launch the initiative 'Euroland - Our Single Payment Area'¹.

This forms the foundation for setting the EPC's objectives, supported by the European banking community: namely the creation of SEPA by 2010, with all payments treated as domestic as far as speed, security, convenience and cost are concerned.

¹ The White Paper "Euroland: Our Single Payment Area" of 42 European banks and the 3 Credit Sector Associations EACB, ESBG, FBE – and EBA, Brussels, March 2002, and Article 1 EPC Charter.

3.2 EPC's Definition of SEPA

There has been a need for clarification within the European banking community concerning what constitutes SEPA. Following debate at the EPC Coordination Committee strategic offsite meeting an updated definition emerged, which was endorsed by Plenary in December 2004:

“SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe¹, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location.”

¹ Europe is currently defined as consisting of the EU 25 Member States + Iceland, Norway, Lichtenstein and Switzerland.

3.3 Focus of the Roadmap

Whilst the SEPA definition refers to Europe in its widest sense, SEPA will be delivered as a priority within the eurozone. Within Europe, outside the eurozone, there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the Single Market for payment services.

The EPC key deliverables are driven by the Roadmap objectives and SEPA vision. Thus the focus is on delivering effective pan-European payment instruments, facilitated by the development of a SEPA scheme framework, and ultimately their adoption and implementation.

3.4 *Primary and Complementary Deliverables*

Primary Deliverables

The EPC's primary focus is on delivering SEPA payment schemes for credit transfers, direct debits and a framework for debit (and account-linked) cards.

These instruments will create a set of core and fully fit-for-purpose pan-European payment instruments to be provided by banks to their consumer and corporate customers.

Secondly, the PE-ACH framework should be enhanced, so as to separate the governance and management of the SEPA payment schemes/frameworks

from their operation by service providers and infrastructures under these common schemes/frameworks.

Thirdly, the EPC community will continue to implement existing EPC Resolutions.

Complementary Deliverables

The EPC will continue its work on cash and other card issues such as fraud prevention. There will also be workstreams examining opportunities for cooperation in both e-payments for web retailers and mobile payments, as covered in more detail below.

3.5 *SEPA Scheme Framework Definition*

The decision has been made to separate "scheme" (or "framework") from "infrastructure". The PE-ACH framework¹ was agreed in 2003 regarding the governing principles for infrastructure, and the EPC has now developed a vision for the schemes and frameworks to underpin the SEPA payment instruments.

Thus, a SEPA payment scheme/framework can be defined as a common set of rules and practices for the provision and operation of a SEPA payment instrument agreed at interbank level in a competitive environment. As such it could include:

- The scheme purpose, objectives and definition,
- The operational model (a high level description of the architecture and flow),
- Business and operational rules, covering e.g. the processing cycle, end-to-end data set and standards, scheme enablers (such as reachability, performance standards, connectivity, security and resilience),
- Market practices including customer processes, as appropriate,
- Interbank relations such as costing principles and practices, and liability and risk management procedures,
- Legal structure and documentation, and contractual arrangements,
- Ownership and governance arrangements.

¹ In January 2003 EPC Plenary endorsed the definition of PE-ACH as: "A business platform for the provision of euro retail payment instruments and basic related services, made up of governance rules and payments practices and supported by the necessary technical platform(s)."

SEPA payment schemes/frameworks should be under the governance of a multi-scheme or a single scheme not-for-profit bank-owned vehicle to be further defined. Such vehicle(s) should be open to all banks and would have the role of safeguarding intellectual property and providing rule-making and change management procedures.

An operator is defined as a service provider processing the interbank elements of a SEPA payment scheme/framework. Whilst there is one scheme/framework, there may be multiple operators all complying with a common set of scheme rules. For example, existing international or domestic card schemes would be

positioned here as potential service providers under an over-arching SEPA framework, as could an existing ACH infrastructure, in relation to a SEPA payment scheme for credit transfers or direct debits.

As agreed at the December 2004 Plenary, the concept of 'SEPA payment scheme' from a cards perspective is replaced by 'SEPA framework', in recognition of the particular meaning of a "scheme" in the cards industry and so as to avoid ambiguity and confusion. The EPC Cards Working Group will make recommendations as to the content of the SEPA framework for adoption by the EPC Plenary in due course.

3.6 Adoption and Implementation

The EPC is committed to self-regulation within the banking industry whilst actively cooperating with regulators. It has responsibility for the development and delivery of compelling SEPA payment schemes, capable of attracting critical mass. It will then support and monitor progress.

The launch and implementation of SEPA payment schemes will be, firstly, a decision of the EPC and its banking communities to deploy the basic scheme enablers (e.g. reachability), and secondly, the decision of banks individually to offer SEPA payment services to their customers.

The adoption of SEPA schemes at national level to complement or replace existing instruments is a decision for the national communities involved, reflecting customer demand and behaviour.

Within the PE-ACH framework, the likely consolidation of operators (national Automated Clearing Houses or their equivalent) is a decision for the community of users and/or shareholders of existing or new infrastructures.

3.7 EPC's SEPA Timeline

The EPC has drawn up a timeline (shown overleaf) based upon three deliverable phases; firstly there is the scheme design and preparation stage, followed by implementation and deployment, which leads into a transitional period in which there is co-existence of national and pan-European schemes and gradual adoption of the latter.

Within each phase there are a number of activities running in parallel, such as design and specification, programme management, lobbying, monitoring and support. Dependent upon the activity in question, responsibility for delivery may lie with a number of industry stakeholders: the EPC itself but also individual banks, national communities and their associations and the regulators.

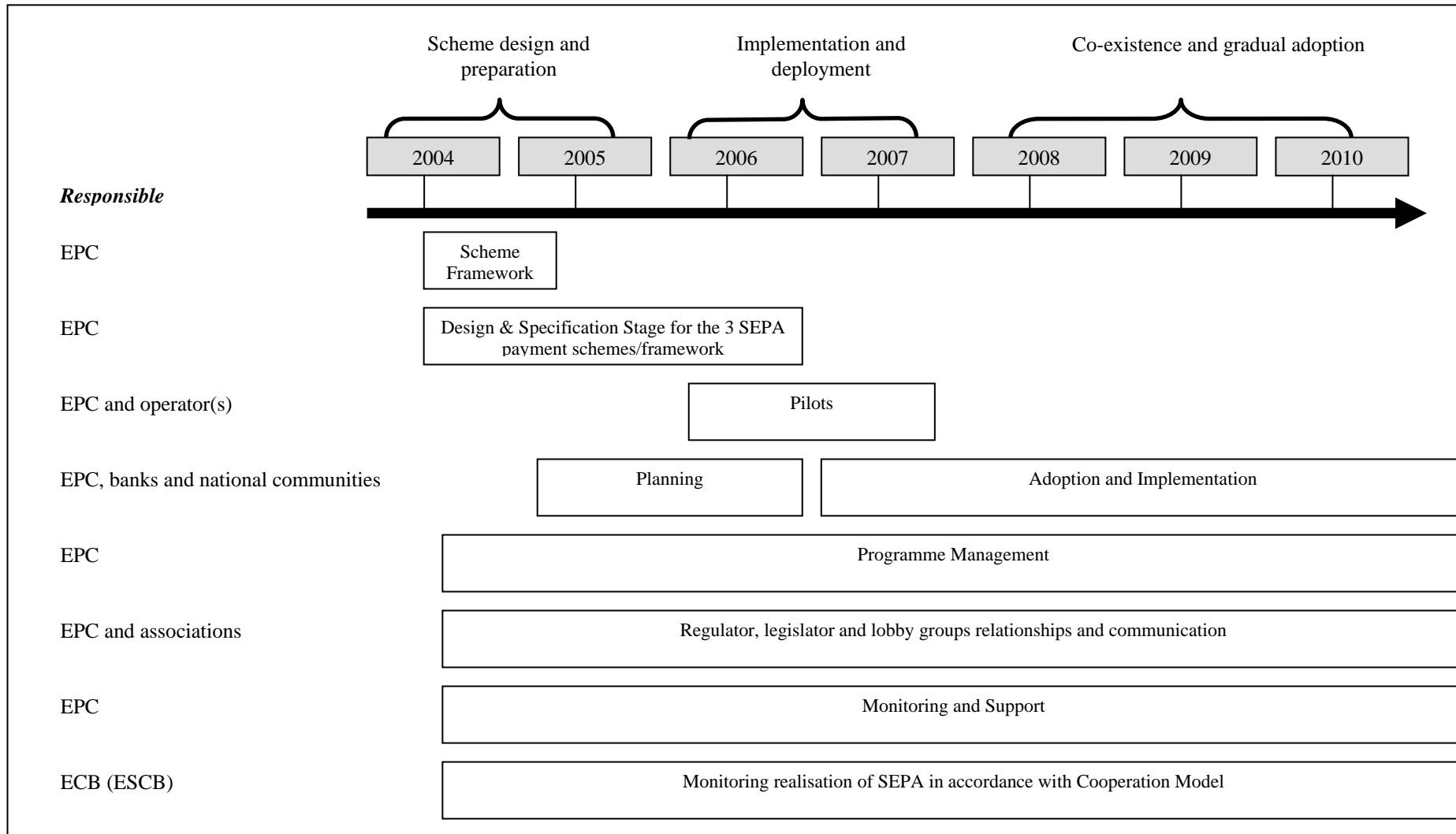
In essence there are two stages of SEPA from the point of view of the customer experience. In the first stage, following the deployment of the SEPA payment

instruments, customers may use them for both their cross-border (SEPA) and domestic payment needs. Since domestic instruments remain fully available, the banking system will maintain parallel infrastructures for SEPA and local payment instruments but this will not be apparent to customers using the pan-European payment services. In the second stage, domestic payment volumes are gradually migrated to the SEPA payment instruments.

In order to accomplish the ambitious deliverables described above, the EPC work programme has been restructured under four Payment Instrument Working Groups¹ (PIWGs) and two Support Groups², each of which has responsibility for delivering the six workstreams underpinning the SEPA programme and making recommendations to EPC Plenary for subsequent decision and implementation.

¹ The four PIWGs are: Electronic Credit Transfers WG, Electronic Direct Debit WG, Cards WG and Cash WG.

² The two Support Groups are: Operations, Infrastructure & Technology Standards SG and Legal SG.



4. Stakeholders' Roles in Adoption and Implementation

Stakeholders are defined as banks (and their associations and infrastructures), their customers and regulators as well as the EPC itself.

4.1 Role of Banks

Banks as EPC Members and as members of European and national banking communities are asked to support the SEPA vision and scope. Consequently they will be required to contribute to the EPC deliverables at EPC and at national level, by planning and preparing for change in 2005. All this calls for timely decision-making regarding mobilisation and execution.

Banks will need to implement and monitor progress at bank and national community level. This will involve giving timely guidance to their associations, payment

scheme organisations and infrastructures. Constructive engagement with customers, consumer and lobby groups, governments and other stakeholders, supported by appropriate communication programmes, will be required.

Banks will need to support the establishment of national SEPA implementation organisations in 2005, either adapting existing programme management structures or creating new ones.

4.2 Role of European and National Banking and Payment Associations

European and national banking and payment associations are asked to support, and to actively promote within their constituencies, the SEPA vision and scope. They will no doubt wish to support the deliverables and their implementation with timely planning and preparation during 2005.

Engagement with National Central Banks, plus European and national lobby groups (consumers, merchants, SMEs, corporates) and governments, will also be required. During 2005 associations should promote the proposition that European and national

public authorities (and their agencies) should become the “early adopters” of pan-European payment instruments.

In 2005, the creation or adaptation of an appropriate national SEPA governance and implementation plan and organisation for each community is needed, within a clear ‘ownership’ group and with oversight from a leadership group at senior (board) level.

4.3 Role of Payment Schemes and Infrastructures

Payment schemes and infrastructures are asked to plan and prepare for the SEPA future in 2005, reconsidering their positioning in the new SEPA environment

as guided by stakeholders. They will also be expected to adopt SEPA instruments and standards at a pace determined by stakeholders.

4.4 Role of European System of Central Banks (ESCB)

The European System of Central Banks (ESCB) is asked to support the EPC with a 'Euroland' view towards the banking industry, governments and public authorities, the EC and lobby groups. Support for the start-up of national SEPA implementation plans and organisations in 2005 should be provided. Also, during 2005, the ESCB should promote the proposition that European and national public authorities (and their agencies) should become "early adopters" of pan-European payment instruments.

More generally, there needs to be alignment within the Eurosystem in 2005. The ESCB also has a role in providing research, communication and moral/peer pressure.

Finally, TARGET2 should be delivered as an essential SEPA platform in 2007.

4.5 Role of Public Authorities

Public authorities are asked to provide legislative and regulatory support to SEPA as well as to encourage implementation through dialogue and communication. As 'buyers' of payment services they have a role as "early

adopters" in implementing pan-European payment schemes wherever appropriate. Alignment of competition authorities is needed to ensure a seamless approach.

4.6 Role of Users of Payment Services

Users of payment services (including corporates, merchants, SMEs, public authorities and consumers) should be convinced to support SEPA by their financial service suppliers. There is potential for the creation of constructive customer partnerships with financial

institutions to promote adoption of the pan-European instruments. Users should migrate step by step to, and/or adopt, new payment instruments as they become available and become involved in national community implementation programmes, starting in 2005.

4.7 Role of the EPC

The EPC itself has a significant programme management and communication role with a need for systematic programme management at European and country level to: manage the overall programme and interdependencies, provide a risk and issues management framework, produce consistent consolidated reporting and support the start-up of national SEPA organisations.

In relation to this the EPC needs a rigorous communication plan to create credibility and momentum, enabling it to plan for communication at all stages and levels of the SEPA programme, to coordinate and align decision-makers and implementers and to avoid 'planning blight' in national payment systems.

Roadmap Glossary

BIC	Bank Identifier Code (SWIFT)
Credeuro	The interbank convention which promotes the adoption of an efficient, low cost, end-to-end scheme for basic cross-border STP credit transfers in euro
ECB	European Central Bank
ECBS	European Committee for Banking Standards, established to develop banking standards for the European banking industry
ECSAs	European Credit Sector Associations
EMV	Europay MasterCard Visa standard based on CHIP & PIN security for card transactions
EMVCo	The company which manages, maintains and enhances the EMV specifications
EPC	European Payments Council, the decision-making body for the banking industry in relation to European payment issues
ESCB	The European System of Central Banks comprises the ECB and the National Central Banks (NCBs) of all EU Member States whether they have adopted the euro or not
Eurosystem	The Eurosystem comprises the ECB and the NCBs of those countries that have adopted the euro. The Eurosystem and the ESCB will co-exist as long as there are EU Member States outside the euro area
IBAN	International Bank Account Number
ICP	“Interbank Convention on Payments”, the convention which establishes the pan-European interbank principles for basic cross-border STP credit transfers in euro
PE-ACH	Pan-European Automated Clearing House framework, where PE-ACH is defined as “A business platform for the provision of euro retail payment instruments and basic related services, made up of governance rules and payments practices and supported by the necessary technical platform(s)”
SEPA payments instruments	The pan-European payment instruments that will be delivered under the SEPA programme
SEPA payment scheme	The rules and practices for the provision and operation of a SEPA payment instrument agreed at interbank level in a competitive environment
SEPA	The Single Euro Payments Area
Stakeholders	Banks (and their associations and infrastructures), their customers, and regulators
STP	Straight-through-processing (can be applied to the bank-to-bank chain only or on an end-to-end basis)
White Paper	The document, that launched the European banking industry’s vision and action plan for SEPA in 2002
TARGET2	The Eurosystem’s planned replacement for TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system)

Appendix 1 Summary of selected 2004 EPC Plenary Resolutions

Resolution on the SEPA Roadmap 2004-2010, 10 December 2004

At its meeting on 6 October 2004, the EPC requested the preparation of a revised Roadmap 2004-2010 to guide EPC's programme of activities in the years ahead. This followed feedback from the Coordination Committee strategy off-site meeting in Durbuy on 6-8 September 2004.

The Roadmap, as drafted by an Editorial Board consisting of the EPC Chair and Vice-Chair and the Chairs of the Working

and Support Groups, with input from the Coordination Committee, has been adopted by the December 2004 Plenary. It will be available for comments by European and national banking communities on the implementation aspects and referred back to the EPC Plenary in March 2005 with the benefit of comments received.

Resolutions on the Pan-European Direct Debit, 17 June 2004

In consideration of the expectation from customers to be provided with a limited set of convenient, cheap, reliable and predictable pan-European instruments to cover their most important payment needs, and the fact that direct debits respond to a real need for processing recurring and non-recurring payments, the EPC endorsed the creation of a new electronic PEDD Scheme that can be used for Intra EU (i.e. both cross-border and national) transactions, considering that:

- a new instrument can coexist in parallel with unchanged national schemes during a transitional period and is the fastest way to launch the implementation of PEDD;
- the new instrument to process both cross-border and national direct debit transactions, future-oriented and secure for intra-EU transactions, should gradually lead the parties to use it for national transactions and will lay the basis for a sound business case.

The EPC defined the Pan-European Direct Debit (PEDD) as: "The instrument governed by the rules of the PEDD scheme for making payments in euro throughout the SEPA from bank accounts allowed to support Direct Debits. Transactions for the collection of money from a debtor's bank account are initiated by a creditor via its bank (creditor's bank) as agreed between debtor and creditor and based on an authorisation given to the creditor by the debtor to have its bank account debited (mandate)".

The EPC, on behalf of the European banking community, is accountable for the scheme and is responsible for the management of the scheme rules. In order to ensure the soundness of the scheme and consumer confidence in PEDD, banks are responsible for major processes, e.g. setting up PEDD and processing transactions. Consumer protection rules in line with industry best practice, including a dispute and redress

procedure based on Alternative Dispute Resolution, will be defined.

The creditor's banks must be able to reach debtor's banks and debtor's banks must accept PEDD so that each creditor authorised to issue PEDD must be able to reach each debtor willing to pay via PEDD within SEPA. Debtors can refuse that their account be debited with PEDD transactions.

PEDD should gradually cover all market sectors. Government agencies and utilities should adopt PEDD to make the scheme viable and to support banks in their investments. The migration of the payment flows will be market driven. Interbank data and payment flows will respect PEDD scheme rules. Any migration of national direct debit schemes to PEDD will occur according to progressive migration paths to be defined at national level by banks together with their customers.

Regarding the development and implementation of PEDD, the main principle is to begin with a basic scheme which could evolve to best cover the various market needs. There must be the same scheme in terms of means and processing for recurrent and one-off direct debit transactions.

The timeframe will be organised in two phases following the agreement of the model to be voted in June 2004:

- a first phase to finalise the scheme and produce a high-level project plan to be delivered by June 2005;
- a second phase dedicated to development and implementation, which will be subject to the coming into force of a robust legal framework and the removal of all national and EU legal and regulatory barriers to the full implementation of the PEDD scheme. This second phase will begin with a pilot targeted by end 2006, to process the first transactions. After successful completion of the pilot phase, implementation and evolution of the scheme will be able to start.

Resolution on a European set of banking best practices for cash handling, 17 June 2004

In consideration of EPC surveys which confirmed that cash is still the most used payment instrument in Europe, with some 360 billion cash transactions per year, and entails an annual cost in the range of 32 billion euro to the banking industry, the EPC adopted a Resolution promoting a number of best practices to encourage the use of electronic means of payment and optimise cash handling. This included:

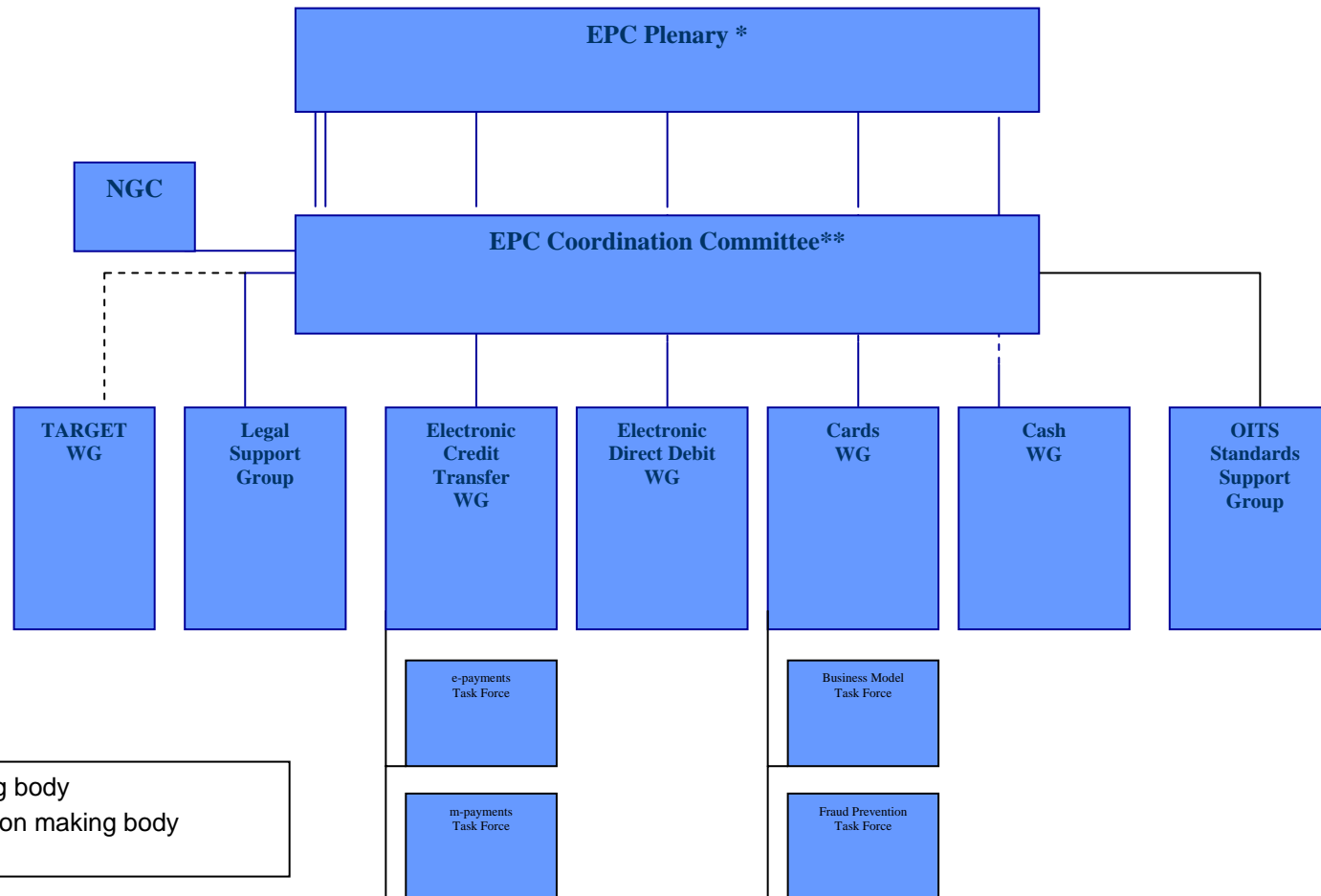
1.1 Best practices for promoting electronic means of payment

- Educating retailers and consumers about cash-related security issues and costs generated by the use of cash, to increase awareness and lead to a more appropriate use of cash.
- Promoting electronic payments at points-of-sale, through joint cash/cards strategies including incentives for card usage, the promotion of pre-authorised debit instruments (e-money, e-purse, mobile payments,...), enlarging the possibilities for paying small amounts of money by card.
- Externalising the cost of cash to retailers and consumers to its actual users, in order to increase awareness of customers and limit the effects of economic distortion on other payment instruments.
- Encouraging governments to phase out cash disbursements use and accept and use electronic means such as credit transfers, direct debits, electronic money.

1.2. Best practices for optimising cash handling

- Shortening the cash processing chain, through a reduction of the number of participants in the processing and distribution chain.
- Developing cash recycling at branch/ATM level, in order to achieve a substantial reduction of transportation/handling costs and improve public security and providing a better cash service to customers.
- Developing cash management to optimise cash flows, e.g. via the centralisation of cash ordering procedures for all outlets and the production of cash order predictions.
- Optimising ATM performance, through the use of performance-evaluation software aimed at identifying the best denominational mix and replenishment frequency, the use of a fault monitoring system, centralising the branch ATM estate and automating the balancing and reconciliation ATM system.
- Outsourcing cash processing to common infrastructures to allow achieving economies of scale and reducing costs.
- Optimising teller operations, including increasing the number of functionalities of automated teller machines, the use of shared tills, and a weekly balancing of tills, or inclusion of merchants in the process chain.

Appendix 2: Structure chart of EPC bodies.



Appendix 3: List of Members

ABN AMRO Bank
Association for Payment Clearing Services (APACS)
Associazione Bancaria Italiana (ABI)
Banca del Piemonte SpA
Banca INTESA SpA
Banco Bilbao Vizcaya Argentaria sa (BBVA)
Banco Comercial Portugues
Bank of Valletta plc.
Banque et Caisse d'Epargne de l'Etat (BCEE)
Banque Fédérale des Banques Populaires
Barclays Bank plc.
Bayerische Landesbank
BNP Paribas
BPU Banca - Gruppo Banche Popolari Unite
Bundersverband der Deutschen Volksbanken und Raiffeisenbanken (BVR)
Bundesverband deutscher Banken (BdB)
Caisse Nationale des Caisses d'Epargne (CNCE)
Caixa Geral de Depositos
Caja de Ahorros y Pensiones de Barcelona (La Caixa)
Citibank N.A.
Confederacion Espanola de Cajas de Ahorros (CECA)
Co-operative Central Bank Ltd.
Crédit Agricole S.A.
Crédit Mutuel
Czech Banking Association
Danish Bankers Association (Finansradet)
Deutsche Bank AG
Deutsche Zentral Genossenschaftsbank AG (DZ Bank)
Deutscher Sparkassen – und Giroverband e.V. (DSGV)
DnB NOR
Erste Bank der Oesterreichischen Sparkassen AG
Estonian Banking Association
Euro Banking Association (EBA)
European Association of Cooperative Banks (EACB)
European Banking Federation (EBF)
European Savings Banks Group (ESBG)
Fédération Bancaire Française (FBF)
Fortis Bank
Grupo Santander
Hellenic Bank Association
HSBC Bank plc.
Hungarian Foreign Trade Bank Ltd. (Magyar Külkereskedelmi Bank Rt)
ING Bank
Irish Payment Services Organisation Ltd (IPSO)
Islandsbanki
KBC Bank NV
Latvijas Krajbanka
Lloyds TSB plc.
Nordea Bank Finland plc.
Osuuspankkien Keskuspankki Oyj (OKO Bank)



Polish Bank Association
Powszechna Kasa Oszczednosci Bank Polski (PKO)
Rabobank Nederland
Raiffeisen Zentralbank Österreich AG (RZB)
SanPaolo IMI SpA
Skandinaviska Enskilda Banken
Slovak Association of Banks (CSOB)
SNS Bank N.V.
Société Générale
Swedbank- ForeningsSparbanken AB
The Bank Association of Slovenia
The Royal Bank of Scotland
UBS AG
WestLB AG

Appendix 4: List of office holders

- Gerard Hartsink, EPC Chair
- Claude Brun, EPC Vice-Chair

- Ugo Bechis, Chair of Legal Support Group
- Terry Dirienzo, Chair of Electronic Credit Transfer Working Group (ECT WG)
- Leonor Machado, Chair of Cash Working Group
- Alfredo Rodriguez, Chair of Operations, Infrastructure and Technology Standards Support Group (OITS SG)
- Alfred Schmauss, Chair of Cards Working Group
- Christian Westerhaus, Chair of Electronic Direct Debit Working Group

- Dag-Inge Flatraaker, Chair of the Nominating and Governance Committee

- Charles Bryant, EPC Secretary General