EUROPEAN CENTRAL BANK

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SECOND SEPA MIGRATION REPORT

OCTOBER 2013

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ISBN 978-92-899-1024-8 (online)
EU catalogue number QB-01-13-569-EN-N (online)

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EXECUTIVE SUMMARY

The SEPA migration end-date regulation[1] established 1 February 2014 as the deadline for euro area migration to SEPA credit transfers (SCT) and SEPA direct debits (SDD) made in euro.[2] The SEPA project is now entering the critical stage of realising a vision born more than ten years ago. The Eurosystem – in its capacity as a catalyst – monitors the migration process towards the SCT and SDD schemes and raises general awareness by identifying potential obstacles in order to ensure that agreed deadlines are met by all stakeholders. In addition, individual central banks are closely involved at the national level in the coordination and communication activities so as to facilitate a smooth and timely migration. Based on quantitative and qualitative reporting by the Eurosystem national central banks, this second report on SEPA migration describes the state of play in the euro area at the end of the third quarter of 2013.[3]

GENERAL ASSESSMENT

New information available to the Eurosystem since the publication of the first SEPA migration report confirms that ***many stakeholders have decided to migrate only in the last quarter of 2013, or even later. This approach gives rise to operational risks and limits the possibilities of tackling any setbacks or unexpected developments during the changeover.***

Overall, payment service providers' (PSPs) preparedness improved further in the first half of 2013, although significant efforts are still needed in terms of making customer servicing channels ready and providing more information to customers on the SDD scheme. Among payment service users (PSUs), small and medium-sized enterprises (SMEs), municipalities and regional authorities continue to represent the groups with the lowest level of general awareness, although communication campaigns launched in the second and third quarters of 2013, at the national level, have helped to improve this situation.

Together with the PSPs, PSUs are also responsible for being prepared for SEPA migration. Payment orders that do not comply with the legal requirements laid down in the SEPA migration end-date regulation will not be allowed to be processed by PSPs after 1 February 2014.

The Eurosystem emphasises – in line with the stance taken by the EU Council and the European Commission — that there is no alternative to meeting the legal requirements as set out in the SEPA migration end-date regulation. Migration will require considerable effort and strong cooperation among stakeholders.

SCT MIGRATION

Compared to the situation described in the first SEPA migration report, there is greater, and generally speaking, faster migration from legacy credit transfers to SCTs in most countries. Central public administrations continue to lead by example and provide impetus for migration and, in many countries, they have already completed preparations. Developments in the first three quarters of 2013 confirm that many stakeholders, particularly SMEs, will make use of XML conversion services to meet SEPA requirements. These conversion services may be useful in managing both the operational risks ensuing from delayed preparations and budgetary constraints, however, relying on these conversion services for too long may prevent stakeholders from reaping the full benefits of

1 Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009, hereinafter referred to as either the "SEPA migration end-date regulation" or "the regulation".

2 Owing to the later deadline of 31 October 2016 for the migration of euro transactions in the non-euro area Member States, developments in these countries are not covered in this report.

3 The Eurosystem published its first report on SEPA migration on 21 March, 2013: http://www.ecb.europa.eu/pub/pdf/other/sepamigrationreport201303en.pdf

SEPA. PSUs need to remember that relying on conversion services is only a partial solution, which still requires thorough preparation on their part. The only instance where conversion services are not perceived to conflict with legal requirements is when those services are clearly separate from payments activities.[4]

SDD MIGRATION

Migration to the SDD scheme continued to lack impetus in the first three quarters of 2013. In some of the larger direct debit markets, PSPs will only provide their final solutions for migration in the last quarter of 2013. This has caused some PSUs, particularly the big billers and the SMEs, to adopt a wait-and-see approach when it comes to migration to the SDD scheme. Overall, this increases the risk of not being able to complete the preparations by the deadline. Nevertheless, practical solutions materialising in many countries, which would help to tailor and facilitate the SDD processes (e.g. mandate databases for legacy mandates, pre-notifications, etc.), appear to be necessary to cover the gaps perceived between legacy products and the SDD.

With a view to the challenge posed by a "big bang" style of migration, it is important to further strengthen communication and cooperation among stakeholders. The Eurosystem calls for an intensive and constructive dialogue between key stakeholders and competent authorities at the national level to jointly address migration issues and the remaining challenges.

4 See footnote 12 for more details on legally compliant conversion services.

INTRODUCTION

In accordance with its mandate to promote the smooth operation of payment systems, the Eurosystem has strongly supported the creation of SEPA since 2002. An integrated market for electronic payments in euro is necessary for the proper functioning of the internal market for the benefit of both its citizens and businesses. By replacing legacy payment schemes with the common EU-wide[5] payment schemes, based on open standards and common rules, SEPA lays the foundations for increased efficiency in the payments chain. SEPA is not just a business project but is also closely linked to the political agenda of a more integrated, competitive and innovative Europe.

SEPA began as a self-regulatory initiative led by the European Payments Council (EPC) – the European banking industry's self-regulatory body. The EPC launched one SEPA credit transfer and two SEPA direct debit schemes[6] in 2008 and 2009 respectively. Although these SEPA schemes achieved high reachability within the banking sector, they failed to reach critical payment mass within a reasonable time frame. In order to avoid a prolonged period in which both the legacy and SEPA products are operated in parallel and in order to reap the full benefits of an integrated retail payments market, a single mandatory end date for legacy credit transfer and direct debit schemes was established by the EU legislators. To this end, all of these legacy payment schemes will eventually be replaced by SEPA schemes developed by the EPC, since they are, thus far, the only candidate schemes to satisfy the SEPA migration end-date regulation requirements.

Migration to SEPA schemes, namely the SCT and the SDD, will be the first deliverables of a wider SEPA agenda which also encompasses card payments and innovative payment solutions, where market participants, supported by authorities, work further to benefit from internal market opportunities.

This report is the second assessment by the Eurosystem of the stage of progress of migration and reflects the developments made since the first SEPA migration report published in March 2013.[7] The scope of the current report is the same as that of the previous one and is in line with the SEPA migration end-date regulation and is, therefore, restricted to the SCT and SDD schemes only.

This report is divided into four sections. The first section focuses on the actual extent of the adoption of SEPA schemes. The second and third sections provide a more detailed look at the general preparedness of PSPs and PSUs respectively. The final section provides an overview of other migration developments relating specifically to the SEPA migration end-date regulation.

5 In addition to the 28 EU countries, SEPA also covers Iceland, Liechtenstein, Norway, Monaco and Switzerland.
6 The core SDD scheme is available to consumers and businesses in their capacity as payers. The business-to-business SDD scheme is available to businesses only.
7 http://www.ecb.europa.eu/pub/pdf/other/sepamigrationreport201303en.pdf

1 MIGRATION TO SEPA SCHEMES

The Eurosystem monitors the progress being made in migration to the SCT and SDD schemes by means of the euro area and national indicators.[8] These quantitative indicators, however, should not be regarded as an ultimate measure of the progress made. They were developed at a time when the mandatory use of ISO 20022 XML message formats in customer-to-bank (c2b) and bank-to-customer (b2c) domains[9] was not a part of the SEPA agenda. The limits of these quantitative indicators[10] led the Eurosystem to develop an additional set of qualitative indicators that aimed to measure the preparedness of stakeholders instead of just the actual migration volumes.

In the first SEPA migration report, the Eurosystem communicated its expectations of the stakeholders. These expectations are summarised in the table below.

Table 1 Expectations communicated by the Eurosystem in the first SEPA migration report

Eurosystem expectations as communicated in the first SEPA migration report	Relevance to SCT	Relevance to SDD
Without a specified time frame		
a) Risks related to late migration should be carefully considered by PSPs and PSUs	•	•
b) PSPs should devote sufficient resources to familiarise end users with business and technical rules of SDD		•
c) PSPs should provide substantial assistance to debtors in order to increase knowledge on consumer protection measures		•
With a reference to Q2 2013		
d) PSPs make customer servicing channels ready for SEPA transactions	•	•
e) PSPs make consumer's protection measures available to debtors		•
With a reference to Q3 2013		
f) All stakeholders migrate at a relatively early stage to avoid risks	•	•
g) CMF countries should migrate more than 50% of their legacy DD transactions		•
h) DMF countries should migrate more than 33% of their legacy DD transactions		•

1.1 THE SEPA CREDIT TRANSFER SCHEME

According to the euro area SCT indicator, the use of SCTs (see Chart 1) accounted for 56.26% of the total credit transfer volume which originated in the euro area in September 2013. In the first three quarters of 2013, the pace of migration accelerated. This vindicates the expectations communicated in the first SEPA migration report that, in several countries, the speed of migration would benefit greatly from the changeover to SEPA by public administrations during this period.[11]

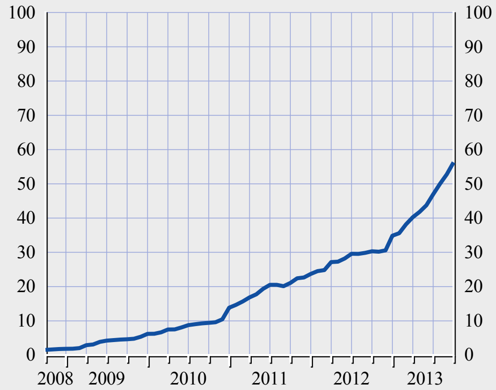
The national SCT indicators (see Chart 2) continue to demonstrate a relatively large variation in the level of migration across countries. Since the publication of the first SEPA migration report,

8 The methodology and results are published on the ECB's website (http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html).
9 This requirement under the SEPA migration end-date regulation applies to those PSUs that are neither consumers nor micro-enterprises and that initiate or receive individual transactions bundled together for transmission.
10 A high volume of SEPA transactions does not necessarily indicate a high end-to-end preparedness owing to the fact that conversion services can be used within the transaction chain.
11 The migration projects of central public administrations in France, Ireland and Italy were finalised in the first half of 2013.

Luxembourg and Slovakia have joined Slovenia and Finland in the group of countries which have practically completed migration to SEPA. Greece, Cyprus, France, Belgium and Spain are well advanced in their progress, with more than 50% of credit transfers already being executed in the SCT format. Migration to the SCT scheme in Austria, the Netherlands and Portugal is also taking place at a fast pace. However, in four countries, the current level of migration is still below 20%. Overall, and compared to the stage of progress at the end of 2012, almost all countries now seem to be making steady progress towards migration to the SCT scheme.

Chart 1 SEPA credit transfers as a percentage share of all credit transfers in the euro area

(September 2008 to September 2013; in percentages)[1]



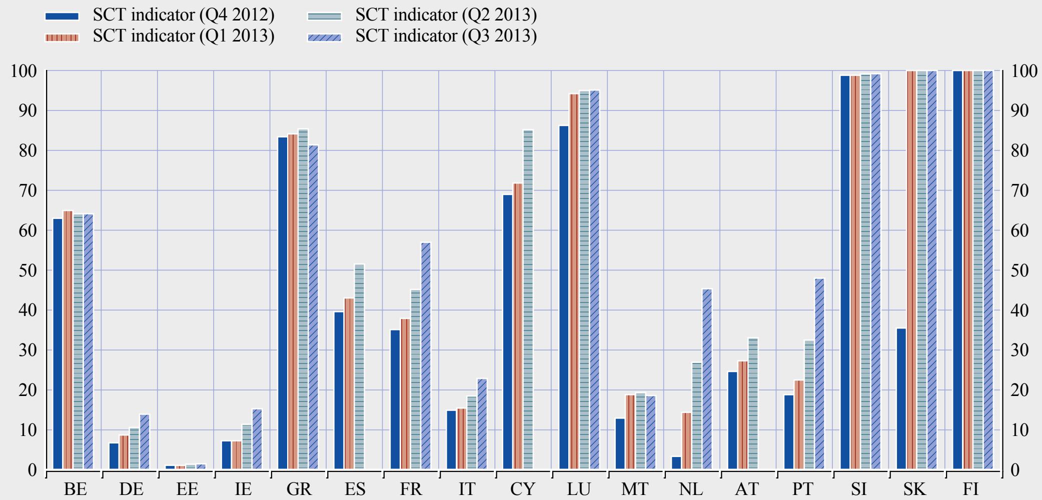
Source: ECB.
1) Euro area indicators are published based on data from clearing and settlement mechanisms or infrastructures, thus they do not contain on-us transactions.

Assessing the developments with regard to migration to the SCT scheme against the expectations communicated by the Eurosystem in the first SEPA migration report, it would appear that substantial efforts have been made by stakeholders to avoid late migration. However, the level of awareness and preparedness in the SME sector still remains an issue with much work still to be done.

For bundled SCT transactions, the ISO20022 XML format requirements introduced in the c2b domain by the SEPA migration end-date regulation continue to pose a challenge, particularly to

Chart 2 SEPA credit transfers as a percentage share of all credit transfers in the individual euro area countries

(quarterly data; in percentages, Q3 2013 data not available for all countries)[1]



Source: ECB.
1) National SCT indicators are compiled using data on transactions processed by the relevant clearing and settlement mechanisms, on bilateral clearing of transactions between two credit institutions, on correspondent banking, as well as on the processing of so-called on-us transactions, i.e. transactions between accounts at the same bank.

SMEs. It seems that conversion services will be used on a large scale after the migration deadline, again, in particular by SMEs. Whilst these conversion services may be useful in managing the operational risks arising from late preparations in the short term, relying on them in the long term will prevent the stakeholders from reaping the full benefits of SEPA. PSUs need to remember that relying on conversion services is only a partial solution which still requires thorough preparation on their part. The only instance where conversion services are not perceived to conflict with legal requirements is when those services are clearly separate from payments activities.[12]

Chart 3 SEPA direct debits (core scheme) as a percentage share of all direct debits in the euro area

(September 2010 to September 2013; in percentages)[1)]

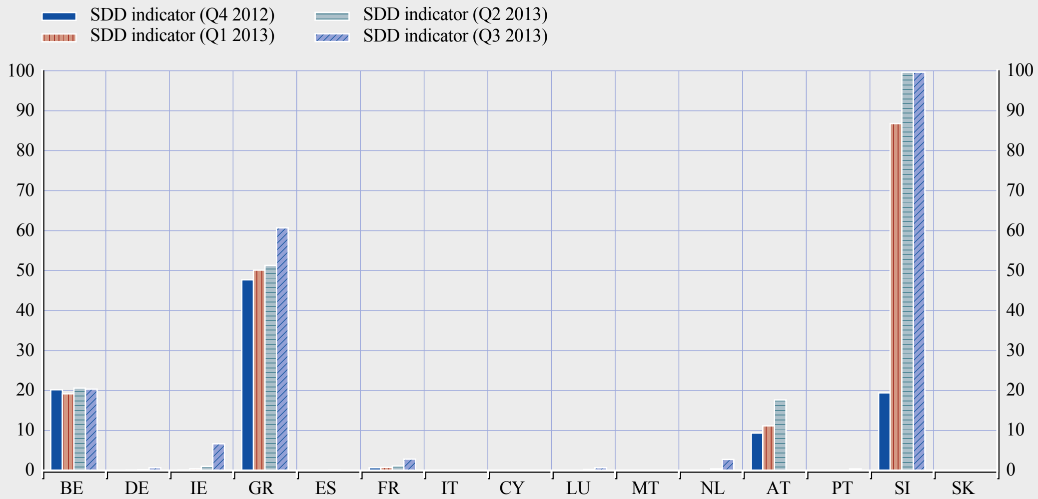
Source: ECB.
1) See the footnote in Chart 1 on the methodology behind euro area indicators.

1.2 THE SEPA DIRECT DEBIT SCHEME

No significant progress towards migration to the SDD scheme has been made since the first SEPA migration report. Based on the Eurosystem's euro area SDD indicator, only 6.84% of direct debits were executed under the SDD scheme in European infrastructures in September 2013.

Chart 4 SEPA direct debits as a percentage share of all direct debits in the individual euro area countries

(quarterly data; in percentages, Q3 2013 data not available for all countries)[1)]



Source: ECB.
1) See the footnote in Chart 2 on the methodology behind national indicators.

12 An indication of separation: should a) be operationally independent from the payment service offered by the PSP; b) be carried out before the point in time of receipt by the PSP of a payment order; c) be information that should preferably pass the PSU before being initiated as a payment; and d) be separately priced.

Furthermore, when comparing this data with the findings of the first SEPA migration report, little change was observed in the national ratios by the end of the third quarter of 2013. Apart from Slovenia, none of the countries are close to completing migration. Greece, Belgium and Austria are a little more advanced, albeit the latter two with ratios of below 20%. In the other countries, including the four largest direct debits markets[13], migration is still marginal in terms of the volume of actual transactions processed in the SDD format. In Estonia, Finland and Cyprus, national legacy direct debits will either be replaced by SCT-based e-invoicing solutions or simply phased out.[14]

Based on the levels of euro area and national indicators, it is unlikely that the expectations communicated by the Eurosystem in the first SEPA migration report with regard to migration to the SDD scheme will be met by the PSPs or the PSUs. In some countries, the reason given for the decision for late migration by the PSPs and the PSUs is the implementation of the D-1 option (a 1-day collection cycle option) under the SDD scheme.

1.3 RISKS DUE TO LATE MIGRATION

Many stakeholders have opted for late migration in the fourth quarter of 2013, or even later, in spite of the risks inherent in such a strategy and the earlier warnings given and recommendations made by the Eurosystem.

The risks due to late migration (as already highlighted by the Eurosystem in the first migration report) stem from the very short time period that remains for the changeover and include, inter alia:

- ***The limited capacity and bottlenecks at PSPs and software vendors at the end of 2013***. Even if many service providers are aware of the increased demand for their services in order to assist with the migration of PSUs by the end of 2013, there may simply not be enough resources if huge numbers of customers concentrate their changeover into a single very tight time frame.

- ***The limited time for PSUs to adapt to PSP systems.*** Those PSUs that wait for their PSPs to roll out new services or make available new systems may find themselves in a situation whereby they only have a couple of weeks left to finalise their own procedures or systems.

- ***Insufficient end-to-end testing between end users and PSPs.*** Even if systems are prepared for testing several weeks before the deadlines, there may be bottlenecks in resources and bandwidth. PSP test systems are, generally-speaking, not designed to process files or data from a very large number of customers at the same time. This could prevent the PSUs from carrying out the proper end-to-end testing required before going live with their own systems.

The experiences of those stakeholders that have already completed migration to the SDD or SCT scheme show that there is a real need for a fine-tuning period after changeover. The risks due to late migration – even though being of an operational nature – could eventually impact the wider supply chain and even jeopardise the public's confidence in payment services in general.

These risks require even better coordination and communication among stakeholders than is currently the case. Operational risks stemming from the short time frame could be mitigated by an

13 Germany, France, Spain and the Netherlands.

14 However, in accordance with the SEPA migration end-date regulation, PSPs in these countries still need to be reachable for the SDD as the debtor bank.

even greater focus on and more intensive efforts in preparations as well as carefully devised action plans in case of potential setbacks. Examples of concrete actions to mitigate these risks include an increase in human resources devoted to migration projects, thorough end-to-end capacity testing, updating of all documentation and workflow processes well ahead of the deadline, etc.

It is also important to realise that relying on conversion services requires thorough preparations and time on the part of those planning to make use of them. Therefore, in the event that conversion services are used for the purposes of migration, careful resource planning is still required.

The Eurosystem emphasises – in line with the stance taken by the EU Council and the European Commission – that there is no alternative to meeting the legal requirements as set out in the SEPA migration end-date regulation.

Making SEPA a reality requires the joint and harmonised migration of all stakeholders. Non-compliance by market participants or communities has negative repercussions for other market participants or communities, because the operational integrity of retail payment processing cannot otherwise be ensured. Both the SEPA schemes and the legal requirements set out in the regulation are results of long negotiations at the pan-European level with the involvement of all stakeholders. The SCT and SDD schemes, in particular, were launched in 2008 and 2009 respectively and the final regulation came into force in March 2012 providing sufficient time for these preparations.

2 PREPAREDNESS OF PAYMENT SERVICE PROVIDERS

In order to complement the quantitative indicators (which track the progress of actual migration) and to assess SEPA readiness across the transaction chain, the Eurosystem developed a set of qualitative indicators, which are updated on a quarterly basis by national central banks and which also takes into account the specificities of the respective country.[15] Although these qualitative indicators are based on a common approach, they are primarily used to indicate the level of preparedness of the different stakeholder groups in the respective quarter within the respective country rather than be used as a tool for cross-referencing between the various different countries.

As assessed at the end of the third quarter of 2013, the preparations for the SCT services at the PSP level are not yet complete in all of the countries (see Table 2). Overall, PSP preparations have progressed over recent months, and, as indicated by the qualitative indicators in all of the countries, PSPs will most likely be ready with their preparations by the legally enforceable end date.

In the first SEPA migration report, the Eurosystem communicated its expectations specifically to the PSPs (see Table 1). The Eurosystem expected the PSPs to make customer servicing channels ready for SEPA transactions in the second quarter of 2013. This expectation has only partially been met by the PSPs, as, in several countries, they did not complete their own preparations by this date. Making customer servicing channels available on time is most important for those end users that are required under the regulation to use the ISO20022 XML format for their bundled transactions (i.e. public administrations and companies that are not micro-enterprises). In those countries where this requirement was not waived for a temporary period, PSPs or third parties may only provide XML conversion services that comply with the requirements of the regulation.[16] The late roll-out of PSP servicing channels to those PSUs that do not make use of these temporary conversion services may significantly shorten the time frame that these PSUs have to adapt and test their own systems.

Without prejudice to the derogation allowing the prolonged use of proprietary formats in c2b and b2c domains,[17] all PSPs must ensure the availability of customer interfaces in ISO 20022 XML formats, if specifically requested by the PSUs, as of February 2014.

XML and IBAN conversion services (provided in line with the SEPA migration end-date regulation), as well as existing additional optional services introduced in some countries can, in certain situations, help to mitigate the risks associated with a "big bang" style of changeover. Nevertheless, conversion services should not be regarded as a long-term solution for end users.

PSPs should further strengthen their efforts to familiarise end users with the technical, business and contractual issues relating to SEPA migration as well as providing them with substantial assistance to facilitate migration efforts in line with the conclusions of the EU Council on SEPA[18]. In this vein, it is essential that there be a constructive dialogue between PSPs and the competent authorities at the national level.

In order to ensure that the SEPA migration end-date regulation be interpreted consistently across Europe, the Eurosystem has been actively involved in discussions with the European Commission and the relevant national competent authorities on the matter. Serious efforts have been made and

15 The Eurosystem performs these qualitative assessments on a best effort basis. It cannot be excluded that the preparation level of individual stakeholders diverges from the overall general assessment. Qualitative assessments cannot be interpreted as engaging the responsibility of competent authorities designated under the SEPA migration end-date regulation.
16 See further details on these requirements on Page 9 and footnote 12.
17 See Table 6 for further details on the use of derogations by individual Member States.
18 Council conclusions on SEPA, 14 May 2013: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/137111.pdf

will continue to be made to align the interpretation of the SEPA regulation by national competent authorities, thus enabling them to provide consistent guidance and clarity to the market.

Owing to the late migration opted for by many PSPs in the SDD domain, the Eurosystem's expectations that consumer protection measures be made available to debtors who are consumers by the end of the second quarter of 2013 have only been partially met. The public's confidence in SEPA, in general, and in SDD, in particular, is of utmost importance and a precondition for a smooth transition process. Therefore, it is important that PSPs make available such measures and step up their communication activities in this regard. Increasing knowledge of how these additional safeguards work in practice is necessary for the efficient use of the SDD scheme over the long term.

Table 2 Preparedness of PSPs for SEPA credit transfer and SEPA direct debits

(SDD core, assessment status as at end of Q3 2013)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT	Green	Green	Yellow	Yellow	Green	Green	Green ↑	Yellow	Yellow	Green	Green	Green ↑	Green	Green	Green	Green	Green
SDD core	Green	Green	Red ↓	Yellow	Green	Green	Yellow	Yellow	Yellow	Green	Green	Green ↑	Green	Yellow	Green	Yellow	Green

Source: ECB.
Notes: Green = preparations completed successfully; yellow = preparations in progress and expected to be ready on time; red = preparations not yet commenced and/or not expected to be ready on time; N.A. = service offerings not envisaged and/or actively marketed by local PSPs; ↑ = improvement compared to Q4 of 2012; ↓ = downward revision compared to Q4 of 2012 (based on slow progress in migration in recent quarters).

3 PREPAREDNESS OF PAYMENT SERVICE USERS

The required preparations for end users will depend on the size of the respective stakeholder and the related project scale. For consumers and micro-enterprises, the main objective will be to familiarise themselves with the IBAN[19] and the features of the SDD scheme. All other end-user groups should make thorough preparations for SEPA migration, as not only their core back-office systems, but also the overall supply chain, will be affected by the resulting changes. It is important for all PSUs to realise that preparing for SEPA is not solely the responsibility of the PSPs. The regulation contains requirements that are explicitly addressed to the PSUs. ***Although the PSPs are responsible for the level of awareness and preparedness of their customers, end users are also responsible for preparing for migration.***

In the following sub-sections, we analyse the level of preparedness of the key PSU groups. The assessment is based on the qualitative indicators used by the Eurosystem.[20]

3.1 BIG BILLERS

Overall, some progress seems to have been made in the preparedness of big billers and large corporates as compared to the findings of the first migration report. However, according to the qualitative assessment by the Eurosystem, only in a minority of countries have preparations been fully completed. On the SCT scheme's front, preparations seem to be more advanced and this sector is expected to be ready on time in all countries. Big billers are fairly confident that full migration to the SDD scheme by the legal deadline is manageable, however, in many cases migration will only take place in the fourth quarter of 2013.

With regard to both the SCT and the SDD schemes, the key challenge is the completion of the IBAN databases and the preparation of the systems for the ISO20022 XML standards in the cases where conversion services will not be used. Many big billers will face particular challenges when it comes to the changeover to the IBAN from the BBAN. If third party conversion services are used to derive IBANs of their customers, it will be very important to ensure and test the quality of such services well before the migration deadline.

In those countries that have not opted for a derogation on the mandatory use of the ISO 20022 XML formats,[21] such conversion services will need to be provided and used independently of the payment service in order to comply with the regulation.[22]

Conversion services appear to be a useful tool in some cases to ensure smooth migration in the short term, however, in the long term, the benefits of SEPA can only be fully enjoyed if big billers and large corporates adapt their own systems to the SEPA standards.

On the SDD scheme's front, in particular, greater effort needs to be made in preparing and adapting the more complex processes to the new standards. Each SDD transaction will need to transfer specific data elements, as defined in the SEPA migration end-date regulation,[23] which are not

19 In six countries, namely Germany, Estonia, Spain, Cyprus, Portugal and Slovakia, PSPs are allowed to offer conversion services from the BBAN to the IBAN for national transactions until 1 February 2016. However, only consumers are eligible for these services.
20 See footnote 15 on the nature of these qualitative indicators.
21 At the time of publication of this report, in seven countries, PSUs (that are neither consumers nor micro-enterprises) will be allowed not to use the XML format to initiate their bundled payments until 1 February 2016 (Estonia, Greece, Spain, Italy, Cyprus, Portugal and Slovakia).
22 For further details, please see Page 9 and footnote 12.
23 For example, the unique mandate reference, the creditor identifier, etc.

used in many of the legacy schemes. This requires the enrichment of data sets linked to existing mandates. In addition to this, creditors (e.g. utilities, insurers, telecommunication companies, sports clubs, etc.) established in debtor mandate flow countries will need to set up a mandate management process[24] and capture the data elements from existing mandates currently stored at the debtor PSPs.

With a view to these challenges, the late timing of migration to the SDD scheme in key direct debit markets seems less justified and – as already highlighted – bears significant operational risk. Nevertheless, the pragmatic, but legally compliant approach, emerging in some countries to cover the gaps perceived between legacy schemes and the SDD scheme (e.g. central mandate databases in debtor mandate flow countries, faster collection cycles, etc.) demonstrates the firm commitment of stakeholders.

The handling of mandates by creditors under the SDD scheme and the legal and operational changes involved in this process, as compared to legacy schemes, requires particular attention both from the PSUs and the PSPs. This is especially true for non-paper mandates, the use of which is widespread in some countries in order to facilitate transactions between physically remote parties (e.g. online merchants, phone order companies, insurers, utilities etc.). In this respect, the apparent lack of fully operational and practical pan-European electronic mandate solutions available on a large scale by the migration end date (a situation which was already highlighted by the Eurosystem in the first migration report) emphasises the importance of constructive cooperation and communication among all the stakeholders and the national competent authorities. The recommendation by the European Payments Council to continue to accept legally valid, legacy scheme electronic mandates for SDDs, as well as the joint statement by the German authorities on this matter, helps to provide greater clarity in this respect.[25]

Table 3 Preparedness of big billers for SEPA credit transfer and SEPA direct debits (core)

(assessment status as at end of Q3 2013)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT			↑									↑		↑			
SDD core		↓	N.A				↑			↑		↑					N.A

Source: ECB.
Notes: Green = preparations completed successfully; yellow = preparations in progress and expected to be ready on time; red = preparations not yet commenced and/or not expected to be ready on time; N.A. = service offerings not envisaged and/or actively marketed by local PSPs; ↑ = improvement compared to Q4 of 2012; ↓ = downward revision compared to Q4 of 2012 (based on slow progress in migration in recent quarters).

SEPA means, inter alia, that PSUs must accept payments from all geographical locations in SEPA. This requirement was also made explicit by the regulation (Article 9) and has practical implications, particularly for big billers and public administrations. Consumers and businesses in Europe have become increasingly aware of their right to only have a single payment account for all of their

24 For example, mandate issuing, storing, amending, cancelling, archiving, etc.
25 The joint statement by the Deutsche Bundesbank and the German Ministry of Finance can be found under the following link: http://www.bundesbank.de/Redaktion/DE/Downloads/Presse/EZB_Pressemitteilungen/2013/2013_09_12_sepa_lastschriften.pdf?__blob=publicationFile, The EPC statement can be found under the following link: http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=639

transactions across Europe (be it for credit transfers or direct debits) and will start making far greater use of this right in the near future. Swift and full migration to the SEPA schemes by corporates and public administrations is the only way to meet the operational and business requirements stemming from their obligations in this respect.

3.2 PUBLIC ADMINISTRATIONS

Public administrations and, in particular, central administrative authorities took the lead for migration to the SCT scheme. Since the publication of the first SEPA migration report, central public administrations in France, Italy and Cyprus have joined their counterparts in Belgium, Finland, Luxembourg and Slovenia and have completed their preparations. This has provided the whole market with further impetus, thereby facilitating migration to the SCT scheme over the first half of 2013. Public administrations use direct debits to a rather limited extent or do not use them at all, and are, therefore, unable to provide the market with similar impetus as for the SCT scheme.

Analyses undertaken by the European Commission[26] in 2012 have revealed that, in certain cases, technical compliance with the SCT scheme has only been ensured as a result of high dependence on XML-conversion services provided by the PSPs.

However, greater efforts still need to be made with regard to the current level of awareness and preparedness of the municipal and regional authorities in this respect.

In particular, local administrations that interact with the PSPs directly, rather than through a centralised process, could be exposed to the risks of late migration.

Table 4 Preparedness of public administrations for SEPA credit transfer and SEPA direct debits (core)

(assessment status as at end of Q3 2013)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT			↑						↑					↑			
SDD core	N.A	↓	N.A		N.A				N.A	↑	N.A			↑		N.A	N.A

Source: ECB.
Notes: Green = preparations completed successfully; yellow = preparations in progress and expected to be ready on time; red = preparations not yet commenced and/or not expected to be ready on time; N.A. = service offerings not envisaged and/or actively marketed by local PSPs; ↑ = improvement compared to Q4 of 2012; ↓ = downward revision compared to Q4 of 2012 (based on slow progress in migration in recent quarters).

3.3 SMES

SMEs' migration to SEPA schemes is, in theory, somewhat less demanding of a challenge in terms of in-house preparations and resources owing to the lower number of internal applications generally used. However, medium-sized companies that are not micro-enterprises and make use of bundled payments face very similar requirements to the big billers and the public administrations.

26 See the "6th survey on public administrations' preparedness and migration to SEPA credit transfers and direct debits", European Commission, 2012 available at: http://ec.europa.eu/internal_market/payments/docs/sepa/publ_adm_migration-2012_10_en.pdf

SMEs are often referred to as the backbone of the European economy. Their relative importance is in contrast with their relatively low awareness of the migration challenges ahead. For this very reason, the Eurosystem had already extended its qualitative indicators and assessment exercise to this sector in the first migration report.[27] Despite the fact that there is still much to be done with regard to the level of awareness and preparedness of SMEs, in the majority of countries, some progress with the preparations seems to have been made. However, on an absolute level, SMEs still remain the least prepared of the PSU groups, as assessed by the Eurosystem.

The relatively low level of awareness further underlines the importance of the communication campaigns which intensified over the second and third quarters of 2013 and which will continue to be stepped up during the rest of the year in most countries. These increased efforts with regard to communication, both at the national and the European level, are a prerequisite for proper preparations by those PSUs that do not have payment-related issues at the forefront of their day-to-day decisions.

In many cases, SMEs seem to lack adequate support from software providers. Solutions from large software providers seem to be too expensive and/or ill-suited to SMEs and many of the smaller software providers do not seem to have SEPA-compliant solutions. In this respect, budgetary and user-friendly solutions that bridge the gap between SMEs' enterprise resource planning systems and SEPA requirements are of utmost importance. In some countries, this gap is covered by applications made available by the PSPs.

Table 5 Preparedness of SMEs for SEPA credit transfer and SEPA direct debits (core)

(assessment status as at end of Q3 2013)

	BE	DE	EE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI
SCT	yellow	red	red	yellow	yellow	red	red	yellow	yellow ↑	green	yellow	yellow	yellow ↑	yellow	yellow	yellow	green
SDD core	yellow	red	N.A	red ↓	yellow	red	red	yellow	yellow ↑	red	yellow	yellow	yellow ↑	yellow	green	yellow	N.A

Source: ECB.
Notes: Green – preparations completed successfully; yellow – preparations in progress and expected to be ready on time; red – preparations not yet commenced and/or not expected to be ready on time; N.A. – service offerings not envisaged and/or actively marketed by local PSPs; ↑ = improvement compared to Q4 2012 ↓ = downward revision compared to Q4 2012 (based on slow progress in migration in Q2).

27 Given the heterogeneity among different SMEs, the limitations of this indicator in terms of assessing the situation in the sector as a whole are more significant than with the other PSU groups.

4 OTHER MIGRATION DEVELOPMENTS

In order to further facilitate the integration process, the national competent authorities responsible for ensuring compliance with the SEPA migration end-date regulation need to cooperate effectively at the pan-European level. In this respect, the European Commission organised a technical meeting with the national competent authorities in July 2013 with a view to aligning the interpretation of the regulation and to implementing it in a harmonised manner across Europe. These discussions helped to provide further clarity to the market with regard to the issues surrounding migration to SEPA.

If the national competent authority is not a central bank, given its competence in the field of retail payments, the respective Eurosystem central bank stands ready to assist the relevant national competent authority when local decisions could have a broader impact on the integrated payments market.

An overview of the derogations permitted for certain Member States (as at the time of the publication of the report) until 1 February 2016, in accordance with the SEPA migration end-date regulation is provided in the table below.

Table 6 Facts related to the SEPA migration end-date regulation

Competent national authorities responsible for ensuring compliance with the regulation (Article 10.1).	In 11 countries,[1] the NCB is the sole competent authority or partner with another public authority: Ireland, Greece, Spain, France, Italy, Cyprus, Malta, the Netherlands, Portugal, Slovenia and Slovakia.
PSPs allowed to offer consumer conversion services to IBAN for national transactions until 1 February 2016 (Article 16.1).	Germany, Estonia, Spain, Cyprus, Portugal, and Slovakia.
A waiver until 1 February 2016 for niche products (Article 16.3).	Greece, Spain, France, Italy, Cyprus, and Austria.
A waiver until 1 February 2016 for card payments resulting in a direct debit (Article 16.4).	Germany and Austria.
A derogation until 1 February 2016 waiving the mandatory use of the ISO 20022 XML format for individual credit transfers or direct debits bundled in batches (Article 16.5).	Estonia[2], Greece, Spain, Italy, Cyprus, Portugal, and Slovakia.
A waiver until 1 February 2016 allowing the continued use of the PSPs' BIC for national credit transfers and direct debits (Article 16.6).	Ireland, Greece, Cyprus, Malta, and Portugal.

1) The competent authority is yet to be designated in Belgium.
2) For a period of 12 months, but could be extended by a further period of 12 months.