



INSIGHTS FROM CASH MANAGEMENT, US

TreasuryPulse

It's Alive! Yes, SEPA Has Arrived

The Single Euro Payments Area (SEPA), one of the final stages in achieving a single European market without trading borders, arrived in January with the successful introduction of the SEPA Credit Transfer.

Corporations now can benefit from SEPA payments within the eurozone. However, the introduction of the SEPA Credit Transfer is just the beginning. There is still work to be done by both banks and corporations over the next few years to achieve the complete SEPA vision.

SEPA Is Live

When the SEPA Credit Transfer went live on January 28, it was a watershed event because it meant that SEPA was up and running. Since that event, Deutsche Bank's four-pillar approach to SEPA has delivered immediate financial and business benefits for clients by handling all payments with SEPA criteria in the same way as legacy domestic mass payments, effectively treating all payments regardless of amount as domestic transactions. Additionally, it facilitated migration to SEPA through format and account flexibility as well as value-added services.

Does that mean it's time to sit back and relax? Hardly. The process of realizing the SEPA vision has just begun and will continue for the next few years. Below are areas that banks and corporations will need to continue working on together in order to realize the SEPA vision.

SEPA Credit Transfer Migration

Corporate migration to the SEPA Credit Transfer has begun, and the format and account flexibility afforded by Deutsche Bank's corporate SEPA strategy (four pillars) has made it easy for corporations to begin SEPA migration from Day One.

So what happens next on the migration front?

Discussions with corporations have revealed the importance of providing tools to convert account numbers to International Bank Account Numbers (IBANs). This will be particularly helpful in migrating domestic payments, which currently do not use IBANs, to SEPA.

The European Payment Council (EPC) has requested each country's banking industry to assess how this can be achieved. Some countries have already come up with proposals, while others are still evaluating the issue.

For example, in France the conversion of account numbers into IBANs is possible based on a secure algorithm. Deutsche Bank will support its clients by accepting files with French account numbers and providing the conversion for them.

In Germany, the service will be provided by Deutscher Bankverlag. It will allow corporates to send their full set of German account numbers and Bankleitzahlen (bank routing numbers) to Bankverlag, which will have access to the banks' structures to derive the IBAN and BIC and provide them back to the clients. Availability is expected for mid-2008.

In Italy, the use of IBANs for local payments has become mandatory already as of January 1, 2008, with a grace period until mid-2008 before penalties are assessed. The local Italian electronic banking systems provide features to exchange national account numbers for IBANs.

And finally, in Switzerland the use of IBANs will become mandatory for local payments (in CHF and EUR) as of January 2010. A tool for account number conversions is available on the web site of the Swiss Clearing House (www.sic.ch).

SEPA Direct Debit Preparation

The other major payment instrument created by SEPA is the SEPA Direct Debit. Before it can be introduced, however, the Payment Services Directive (PSD) must be in place.

The PSD is a parallel initiative to SEPA that establishes uniform rules for payments, including direct debits, about matters such as authorization of transactions and allowable return time frames.

The PSD has been ratified at the European Union level and on December 5, 2007, was published in the internal market in all community languages, which provides the impetus for the process of implementation into national law. The final deadline for this implementation is November 2009.

In conjunction with the process of implementing the PSD into national law, the issue of whether new debit authorization mandates must be created to replace existing mandates is being addressed. Banks and corporates are working at the national level to get these mandates "grandfathered" so that individual countries won't require the creation of new ones in light of the new PSD legal framework.

Additional Optional Services

The EPC has defined the basic services around SEPA for cards, credit transfers and direct debits, and is now developing additional services that will be optional for banks to offer.

For example, the EPC is working to develop SEPA Electronic Mandates — the electronic creation, validation and exchange of SEPA Direct Debit mandates in a real-time process, and SEPA Online Payments — a model for online authorization and real-time exchange of payment guarantees with the SEPA Credit Transfer Scheme.

Central Bank Reporting

Despite the fact that the SEPA vision of a single European market without trade barriers is getting closer to realization with each passing year, there are still remnants of the old way of operating. One of these dinosaurs is Central Bank Reporting (CBR).

Unfortunately, despite efforts by the banking industry to persuade regulators to abolish CBR for SEPA transactions, this could not be achieved for Day One. The consequence for corporates is that with the start of SEPA, CBR reporting duties must still be fulfilled according to prevailing national practices. Deutsche Bank continues to support local formats for cross-border SEPA transactions that can hold relevant CBR details, and provide reporting services to its clients as it did before the start of SEPA.

End Date for Legacy Schemes

The SEPA Live date marks the beginning of a phase of parallel use of the new SEPA instruments alongside existing national payment instruments, while also signaling the beginning of the end for these existing national schemes. The end date for this dual phase is not yet set, but demands have been voiced to define the end date so as to provide planning certainty to the markets. Therefore, most countries have started discussions to provide recommendations around an end date in their country. In some countries, 2012 is seen as most likely.

For more information about what's ahead for SEPA, visit www.db.com/gtb/sepa.