NATIONAL SEPA COMMITTEE

THE FRENCH MIGRATION PLAN

The French language text prevails

Version 1, approved by the National SEPA Committee on October 27, 2006

CONTENTS

Summary

The objective of the Single Euro Payments Area (SEPA) project is to provide European Union residents with common cashless payment instruments that will enable them to make payments in euros under the same conditions irrespective of the country of the European Union.

To achieve this ambitious goal, the European banking community, via the European Payments Council (EPC), has established rules for the future European payment instruments, which will eventually replace most national payment instruments.

The EPC and the Eurosystem have asked each country to prepare a "migration plan" that describes how a national community intends to implement European payment instruments. The various national migration plans will then have to be made consistent to ensure that the SEPA project is a success.

To prepare the French migration plan, the Banque de France and the French Banking Federation formed the National SEPA Committee, which is composed of representatives of all stakeholders, i.e. banks, public administrations, companies, merchants and consumers along with members of Parliament and a representative of the Economic and Social Council. The National SEPA Committee's work is supported by internal structures created by various stakeholder communities, which include banks and financial companies, public administrations, companies, and merchants.

The Committee has based its definition of future range of payment instruments on the principle that the current level of service must be maintained. It considers that most French payment instruments can eventually be replaced with European payment instruments, and that only cheques and e-money remain outside the scope of the SEPA project, their use thus being maintained in France.

Beginning in 2008, it will be possible to replace without additional services “ordinary” credit transfers and direct debits respectively with the SEPA credit transfer and the SEPA direct debit. Bringing interbank and three-party payment cards into compliance with the SEPA Cards Framework will also be possible from 2008, this compliance being mandatory only for bank cards. However, the Committee considers that the decision to migrate “specific” credit transfers, interbank payment orders (*TIP*), electronic payment orders (*télérèglement*) and promissory notes and bills of exchange to European payment instruments must be postponed.

In a few months, the National SEPA Committee will confirm the configuration of the future range of payment instruments, in light of the results of the work in progress at the EPC.

Several requirements must be met before the new European payment instruments can be deployed and in operation. Firstly, it is essential that they are governed by a clear and precise legal framework, both at the national and European levels. The Directive on payment services, which is currently being

discussed, will harmonise legal frameworks in Europe. National legal rules will also have to be reviewed. Furthermore, interbank payment infrastructures will have to provide appropriate services to enable financial institutions to exchange and process the new payment instruments.

The National Committee has established the following principles for the deployment of the new European payment instruments in France:

– A deadline for migration completion must be set to ensure that the implementation of the new European payment instruments is irreversible ;

– Migration timetables may vary between payment instruments ;

– For each instrument, the National Committee will have to confirm the migration deadline in due time, using a tool to monitor the growth of instrument use during the transitional period.

On the basis of these principles, the National Committee has set the following guidelines, which take into account the specific constraints of banks, non-bank organisations and public administrations.

French banks intend to offer the new payment instruments (i.e. credit transfers and direct debits) from 2008, provided that the necessary changes in the legal framework are made and that they have sufficient time to inform users and make the required changes to account agreements and contracts.

The evolution of the use of European payment instruments is expected to result in a "critical mass" of payments made with these instruments, in 2010 for "ordinary" credit transfers and in 2011 for ordinary and express direct debits. If this is the case, migration could be completed for credit transfers by the end of 2011 and by the end of 2012 for direct debits.

Regarding interbank payment orders (*TIP*) and electronic payment orders (*télérèglement*), once the future of these two instruments is decided, specific studies will have to be undertaken to determine their migration timetables. This is also the case for truncated bills of exchange and truncated promissory notes.

Regarding card payments, the implementation of the SEPA project will require few technical changes in the short term. In accordance with the EPC's schedule, French banks will begin to issue cards compliant with the SEPA Cards Framework from the start of 2008 and all of the cards they issue will be SCF compliant by the end of 2010. Over the medium term, the current work at European level regarding changes in the standards to be used in the various phases of transaction processing could have an impact on merchant acceptance systems.

When the new SEPA payment instruments are first made available and until the current national payment instruments are no longer used, there will be a "transitional period" during which both will be used. This transitional period must be long enough to enable the various stakeholders to suitably organise their migration and yet should be kept as short as possible to avoid the inefficiencies of maintaining two parallel groups of payment instruments.

Several aspects of France's final migration plan will depend on the results of work currently underway or planned in Europe, such as the EPC's work on SEPA direct debits and the efforts of EU authorities to complete and adopt the Directive on payment services. The final French migration plan will also depend on the migration plans of the other euro area countries, which are the most concerned by the SEPA project, and with which it must be consistent, particularly with regard to the starting date and pace of migration. Lastly, since the European Commission has yet to establish a clear and viable position on business models for SEPA direct debits and card payments that are compatible with competition law, a factor of uncertainty remains that may hinder companies' commitment and thus influence the timetable of the migration plan's implementation.

Therefore, the migration plan presented herein must be considered only a first draft that will have to be complemented and subsequently revised.

I – Guidelines

The objective of the Single Euro Payments Area (SEPA) project is to provide European Union residents with common cashless payment instruments that will enable them to make payments in euros under the same conditions irrespective of the country of the European Union.

This ambitious objective first of all concerns the payment instruments used to make most cashless transactions, i.e. credit transfers, direct debits and payment cards. Achieving this objective will require that common rules for initiating, processing and exchanging payment orders be established directly at the European level. These rules aim to harmonise the conditions of use of these payment instruments and facilitate the automation of their processing.

This is why the European Payments Council (EPC), which was formed by the European banking community in 2002, has defined rules to govern the functioning of Europe's future payment instruments. The European Commission and the European Central Bank support the development of this project and seek to make sure that all stakeholder expectations are taken into account and that harmonised conditions of use of these new instruments are achieved with no deterioration of the current levels of service. This objective was one of the main priorities stated by the EU member states at the ECOFIN Council meeting of October 10, 2006.

Working from these common functioning rules, European banks are free to propose different services and to price them as they wish, as is currently the case for national payment instruments. The only pricing constraint that banks must observe is not to discriminate between European and national payments, as already required under European Regulation 2560/2001 for transactions of less than 50,000 euros for four years. Users of payment services will thus be able to choose freely between various offerings of banking services and select the type of service and price they find most suitable. At the ECOFIN meeting on October 10, 2006 the member states clearly emphasised their wish to ensure that the current levels of service are at least maintained, particularly in terms of quality and price.

European payment instruments are to eventually replace most national payment instruments. Successful migration to these new instruments will require strong coordination between all stakeholders, which include banks, public administrations, companies, merchants and consumers. It is for this reason that the EPC and the Eurosystem have asked the national communities to prepare their migration plan, which must describe how a country intends to implement European payment instruments. The EPC plans to monitor the implementation of national migration plans to make sure they are coherent and thus help ensure the success of the SEPA project. This overall coherence is essential at the European level to enable a coordinated implementation and take-up of the new payment instruments and ensure that the SEPA project gets off to a strong and irreversible start.

To prepare the French migration plan, the Banque de France and the French Banking Federation formed the National SEPA Committee, whose members represent the various stakeholders (i.e. banks, public administrations, companies, merchants, consumers and MPs). The National SEPA Committee is assisted by five working groups[1]. To ensure that the new payment instruments are adopted in France the Committee has decided that there must be no deterioration of the level of payment services.

This document is the first version of the French migration plan. It presents the range of payment instruments for 2008 and how the various stakeholders plan to use these instruments.

[1] These five working groups were created to examine:

- The range of payment instruments for 2008. This group is chaired by the Banque de France and has two vice-chairmen who respectively represent the banking industry and various consumer associations ;
- The mandate of the SEPA direct debit (co-chaired by the DGTPE and AFTE) ;
- The changeover from the RIB bank code to IBAN (chaired by AFTE with a vice-chairman representing the banking industry) ;
- The transitional period (co-chaired by banking industry and merchant representatives);
- The communication (chaired by a banking industry representative).

A more detailed description of the work conducted by these groups may be found in the appendix hereto.

II – Payment instruments in France

Of the various payment instruments currently used in France the National SEPA Committee has identified those that can be replaced by European payment instruments (section 1 below); those that can be migrated as early as 2008 (section 2); those for which a decision cannot yet be made (section 3); and the consequences of these choices on the payment instruments delivered as part of the "basic banking services" (section 4).

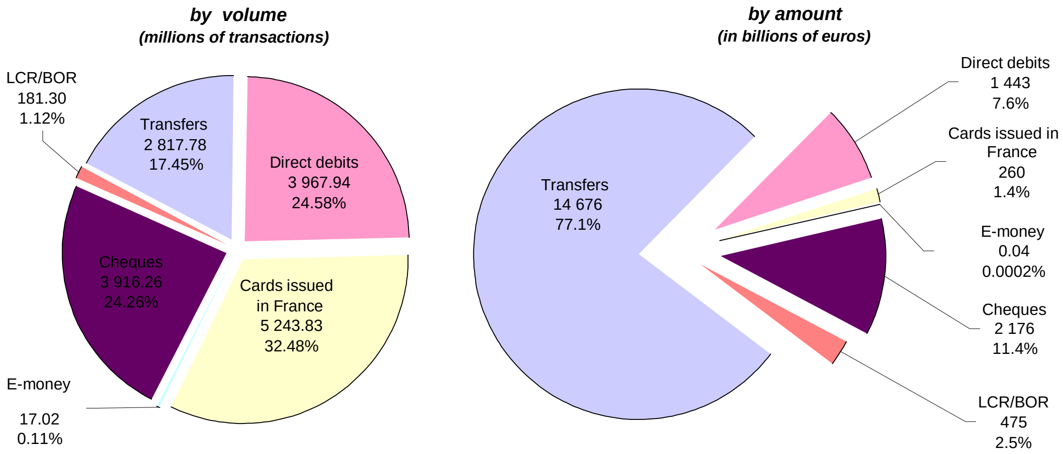
1. Most French payment instruments can be replaced with European payment instruments

In 2005, customers of French banking institutions (including consumers, companies and public administrations) made some 16 billion cashless payment transactions, representing a total amount of 19,000 billion euros. These transactions involved a wide range of payment instruments:

– payment cards (interbank and three-party cards);
– direct debits;
– cheques;
– credit transfers ("ordinary" and "specific"[2]);
– interbank payment orders (*TIP*);
– electronic payment orders (*téléréglement*);
– truncated promissory notes (*LCR*) and truncated bills of exchange (*BOR*);
– e-money.

Payment cards (whether interbank or three-party cards) are the most widely used type of payment instrument, accounting for 32.5% of transactions. They are followed by direct debits (24.6% of transactions), cheques (24.3%), credit transfers (17.4%), bills of exchange and promissory notes (1.1%) and electronic purse (0.1%).

[2] "Ordinary" credit transfers are typical transfers of customer funds that may vary in some respects as to the type of information exchanged or the obligations of the various parties involved. They are divided into "basic" transfers, foreign-initiated transfers, "referenced" transfers, EDI transfers and B2B transfers. "Specific" transfers are intraday transfers processed on an individual basis for which customers request specific services from their bank. "Specific" transfers are intended to be executed the same day in a large-value payment system, such as TBF and PNS currently and TARGET2 as of February 2008.



Source: Banque de France – 2005 figures

The SEPA project concerns all of these instruments, except for cheques and e-money. Since these instruments are used in only some national communities no European specifications have been established for them. Accordingly, these two French instruments will be maintained.

However, the National SEPA Committee considers that all the other payment instruments currently used in France can be replaced with European payment instruments. These are :

– "ordinary" and "specific" credit transfers;
– direct debits;
– interbank payment orders (*TIP*);
– electronic payment orders (*télérèglement*);
– interbank and three-party payment cards;
– promissory notes and bills of exchange (for the payment part only[3]).

2. National payment instruments that can migrate from 2008

a. "Ordinary" credit transfers

The SEPA credit transfer offers services comparable to those provided by the "ordinary" transfers currently available in France and extends them to all SEPA countries[4]. It can therefore replace these national transfers from 2008 without requiring any special adaptation.

SEPA credit transfers will entail the three following changes for French users:

[3] These truncated bills of exchange and promissory notes are unique in that they are debt securities in addition to being payment instruments.

[4] The SEPA includes the 25 EU member states as well as Norway, Iceland, Liechtenstein and Switzerland.

- The data that appear on the bank identity statement and enable to identify the account of the credit transfer beneficiary will be the IBAN (International Bank Account Number) and the BIC (Bank Identifier Code) of the bank that holds the account. These two codes are international standards used respectively to identify bank accounts and banks and are already frequently used to make cross-border transfers within the European Union.
- A maximum guaranteed execution time of three days, for both national and cross-border transfers throughout the SEPA. This time limit starts once the transfer order is accepted by the originator's bank and ends when the beneficiary's account is credited. This execution time is a maximum. Furthermore, it is expected to be shortened by the future Directive on payment services, the initial proposal of the European Commission planning to reduce it to one day as of January 1, 2010. Banks will be able to offer their customers shorter execution times and the future French interbank payment system should make it possible to maintain the current execution time of one day for national credit transfers.
- The space provided to customers for indicating the purpose of the transfer will be longer in the SEPA credit transfer than in current national transfers. Indeed, banks have committed to acquire, transmit and deliver remittance data of 140 characters, compared to 30 characters as is currently the case for national credit transfers.

b. Direct debits

The rules for SEPA direct debits are significantly different from those for French direct debits:

- The mandate process of the SEPA direct debit represents a major change. The SEPA direct debit requires a "double mandate" presented in a single document that the debtor sends to the creditor only[5], and no longer two distinct mandates, i.e. the debit request that the debtor sends to the creditor and the debit authorisation that the debtor gives to his bank. The mandate will now be kept by the creditor and is only to be sent to the debtor's bank upon request, to enable verification. As is currently the case, creditors will have to inform debtors of the amount and date of the debit prior to any issuance of direct debit. Debtors will also be able to ask their banks to reimburse a debit that has been made or challenge a debit on the grounds that a valid mandate was missing[6].
- SEPA direct debits will be executed more rapidly than most current debits. The time required for debtor accounts to be debited after creditors present the direct debit order to their banks will be reduced

5 This type of mandate process is known as "Creditor Mandate Flow" or CMF.

6 Users will be provided with a guide on disputes linked to SEPA direct debits.

from four days to two. This will provide greater flexibility to direct debit issuers.

The National SEPA Committee considers that the SEPA direct debit can replace “ordinary” and “express” direct debits from 2008, without compromising the current level of service, provided that creditors have sufficient time to plan for and develop the necessary IT resources. This conclusion will however have to be re-examined on the basis of the EPC's work to provide customers with an alternative process for mandate transmission between debtors and creditors[7]. On September 27 the EPC Plenary approved the idea of a second optional mandate flow and plans to complete this work by March 2007.

After having worked on the basis of the first decisions made by the EPC on a single mandate flow, the National SEPA Committee learned of the EPC's intention to introduce a second optional mandate flow.

The optional nature of the so-called "Debtor Mandate Flow" (DMF) would deprive creditors issuing direct debits within SEPA of the assurance that their debits will be accepted by all debtor banks. This seems to conflict with the SEPA project's objective of enabling the same payment instrument to be used throughout SEPA.

The coexistence of two mandate flows raises the issue of selecting one of them. Both debtors and creditors would like to have the choice of the process.

Consumer representatives show a very distinct preference for the DMF, which is, from their point of view, the only one capable of maintaining the current level of security for direct debits.

However, if the DMF is to remain an option for creditors, consumer representatives would like debtors, with the consent of their banks, to be able to refuse SEPA direct debits made using the CMF.

Since creditors and debtors may have different expectations as to how direct debit mandates should be managed, the National Committee will examine this matter in greater detail once the EPC has concluded its work in this area.

Given this situation, French banks have now committed to develop both direct debit mandate flows.

c. Payment cards

The EPC's "SEPA Cards Framework" (SCF) proposes three possible options for the migration of general purpose card schemes:

1. Having the international schemes process national transactions;

[7] Under this process, which is known as "Debtor Mandate Flow ", the debtor sends a mandate to his bank, which stores the mandate and sends the mandate related information to the creditor via the creditor's bank.

2. Creating a European card scheme through the extension, merger or alliance of one or more national schemes;
3. "Co-branding" national schemes with international schemes.

Regardless of which scenario is selected, the cards will have to comply with the EMV chip card standard.

In France, "CB" bank cards, which include cards requiring systematic authorisation (“zero floor limit cards”), are currently 95% "co-branded" with one of the two international schemes (VISA or MASTERCARD) and in their great majority comply with the EMV standard. The National SEPA Committee therefore takes note that most of the French "CB" bank cards should comply with the European framework for interoperability from 2008. A diversified offering of payment cards will be maintained and what will become of purely national bank cards remains to be considered.

However, French banks have not yet defined their strategy for migrating to the SCF. The details of bank card adaptation are currently being examined to make sure that merchants will not have to make any significant technical changes to their acceptance systems in the near future. Over the medium term, some modifications to merchant systems may be necessary, depending on the results of the work currently being conducted in Europe on the standards that will govern the various phases of payment card processing.

Three-party cards may be in the scope of the SCF. Three-party card issuers are free to bring their cards into compliance with the SEPA framework. But they have no obligation to comply with this framework.

3. National payment instruments for which the migration decision will be made subsequently

a. "Specific" credit transfers

"Specific" credit transfers[8] will not be replaced with the SEPA credit transfer from 2008, since the latter, as adopted by the EPC in March 2006, is designed for ordinary and non-urgent transfers.

However, the EPC may possibly adopt rules for priority credit transfers. The National SEPA Committee will examine the utility of migrating the "specific" national credit transfers if such rules are adopted.

b. Interbank payment orders (*TIP*)

Interbank payment orders (*TIP*) will not be replaced with the SEPA direct debit in 2008, since the analysis of TIP migration to the SEPA direct debit has shown that the current level service of TIP could not be maintained by

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[8] A "specific" credit transfer is an intraday transfer processed on an individual basis for which the customer has requested a specific service to his bank.

the SEPA direct debit as adopted by the EPC in March 2006. Most notably, migration to the SEPA direct debit would increase the TIP interbank execution time from one day to five days.

The TIP will therefore be maintained as a national payment instrument in 2008. It may however be replaced thereafter provided that a solution is found that is compatible with the planned SEPA features, and which in particular enables a collection time that is comparable with the current situation. The National SEPA Committee will review the conditions for TIP migration in the first half of 2007.

c. Electronic payment orders (*télérèglement*)

Electronic payment orders (*télérèglement*) will not be replaced with SEPA direct debits in 2008, since the analysis of their migration to the SEPA direct debit has shown that the SEPA direct debit as adopted by the EPC in March 2006 could not maintain the *télérèglement's* current level of service. In particular, the interbank execution time would increase from one day for *télérèglement* to two days for the SEPA direct debit.

The *télérèglement* will therefore be maintained as a national payment instrument in 2008. It may however be replaced thereafter provided that a solution is found that is compatible with the planned SEPA features, and which in particular enables a collection time that is comparable with the current situation. The National SEPA Committee will review the conditions for *télérèglement* migration in the first half of 2007.

d. Promissory notes and bills of exchange

Due to the special nature of these payment instruments and the legal framework to which they are subject, the conditions of migration for promissory notes and bills of exchange must be further examined.

4. Payment instruments provided as part of "basic banking services"

The content of basic banking services[9] has been set forth in Decree No. 2006-384 of March 27, 2006 codified in article D. 312-5 of the French Monetary and Financial Code. These services include especially a payment card requiring systematic authorisation and payments by direct debit, TIP or credit transfer. The above mentioned decree does not specify the geographic reach of use of the payment instruments provided as part of basic banking services.

With the transition to SEPA, the payment instruments of basic banking services will be replaced by European payment instruments, i.e. a payment card in compliance with the SCF, SEPA direct debits and SEPA credit transfers. However, the question of the geographic reach of these instruments has not been resolved and their use may be restricted to France or extended to all of SEPA.

[9] Basic banking services are those that are delivered free to consumers as part of the right to access to banking services.

5. Summary

The "target" range of payment instruments shown in the table below will be made available to customers as of 2008. The table was prepared on the basis of the rules governing the functioning of European instruments validated by the EPC in March 2006.

The "target" range of payment instruments is to coexist with national payment instruments from 2008 during a transitional period after which it will replace the national payment instruments.

The “target” range is based on the assumption that most of the current national payment instruments will migrate to European payment instruments, except for cheques and electronic purses. However, further work will be required to confirm this "target" range:

– The migration of direct debit to SEPA may be modified to take into account the EPC's current work on an alternative mandate flow and a B2B variant for the SEPA direct debit.

– The conditions for migrating TIP, *téléréglement*, promissory notes and bills of exchange remain to be examined.

– The migration of the "specific" credit transfer to SEPA will have to be analysed if the EPC adopts specifications for priority credit transfers.

Payment instruments made available as part of basic banking services (such as cards requiring systematic authorisation) will have their technical standards migrated to SEPA. However, the question of the geographic reach of these instruments has yet to be resolved.

Box 1 – The target range of payment instruments

Current payment instruments	Replace?	"Target" range
"Ordinary" transfer	Yes	SEPA transfer (SCT)
"Specific" transfer	Decision postponed	?
Direct debit (ordinary and express)	Yes	SEPA direct debit (SDD)*
TIP	Decision postponed	SEPA direct debit with community additional services?
Téléréglement	Decision postponed	SEPA direct debit with community additional services?
CB bank cards	Yes	SEPA "CB" bank card (SCF compliant)**
Three-party cards	Yes or no, as decided by issuer	SEPA three-party card (SCF compliant) or non-SEPA three-party card
Bill of exchange Promissory note	Decision postponed	?
Cheque	No	Cheque
Electronic purse	No	Electronic purse

* CMF version, to be completed for DMF

** conditions of implementation to be specified

National SEPA Committee – October 2006

III – France's transition to SEPA

This section describes how France is preparing to implement the SEPA project. It begins by presenting the various working groups that the main stakeholders have set up and their specific economic approaches to SEPA.

It then examines the legal requirements for using European payment instruments and deals with various issues specific to France.

The implementation of SEPA in France must be conducted in a manner that is consistent with the rest of Europe, particularly with respect to the implementation launch date and timetable. The document therefore expresses the expectations of the French community with respect to the other SEPA actors and the payment infrastructures.

After defining the concept of "transitional period", this section will present the projected timetables for migrating the various types of payment instruments. These timetables – which are based on the guidelines presented by the bank, corporate and public administration stakeholders – are for information purposes only, since some work will require further study and adjustments will have to be made once the current uncertainties are cleared up, regarding for example the finalization of the EPC's specifications and the legal framework.

This presentation of France's transition to SEPA ends with a look at the communication that will be required to support this change.

1. Stakeholder preparation and working groups

The various French stakeholders have each set up dedicated working groups to help prepare the migration plan, coordinate the preparation work and carry out individual implementation.

For example, the French banking community has set up a steering committee co-chaired by the Banque de France and the French Banking Federation (FBF). This committee's work is based on that conducted by the CFONB, the French Banking Organisation and Standardisation Committee. The FBF and the CFONB regularly inform their members of the progress of work made at the European and French levels and provide them with tools for adapting bank IT systems.

The ASF (the French Association of Financial Companies) has set up a "Payment Instruments" working group, whose members prepare its positions on SEPA and on the drafts of the Directive on payment services. The ASF is also a member of the CFONB.

The Ministry of the Economy, Finance and Industry (the Public Accounting Department; the State Modernisation Department; the Tax Department; the Treasury and Economic Policy department and the French Treasury Agency), and the Ministry of Health (the Social Security Department and ACOSS) and the Banque de France meet within an interministerial committee formed in March 2006. Furthermore, each of these departments has either formed internal working groups or set up monitoring and guidance procedures to prepare impact studies on their information systems. The Ministry of the Economy, Finance and Industry has also begun to work on these aspects with its bankers.

Corporate treasurers – via the AFTE, the French Corporate Treasurers Association – have been deeply involved in the SEPA project and a special SEPA committee has been created within this association. This committee has in particular provided responses to the questions posed in the European Commission's document entitled "SEPA Incentives" and expressed the position of "Large Corporations" in response to the changes planned by the banking industry. Lastly, conferences have been organised in the Association's various regional delegations and a series of conferences is planned for 2007 to increase member awareness of SEPA issues.

For small and medium-sized enterprises, SEPA issues are being dealt with by the European Affairs Bureau and the Economic Affairs Department of the CGPME (the General Confederation of Small and Medium-sized Enterprises). The Confederation presents the various issues involved using on-line information letters and discusses them with SME managers at meetings with member companies. Providing these managers with reliable information will only be possible once the various technical and other aspects of the transition to SEPA instruments have been firmly decided.

Merchants are represented by their trade associations and in particular the FCD (Federation of Commerce and Distribution), which has set up a special SEPA working group and regularly provides its members with comprehensive information. Some major merchant groups have formed SEPA working groups to monitor strategies and work progress and provide some initial impressions of SEPA's impact on their business activities. The FCD is also in regular contact with other national merchant associations in its European federation.

The CCSF (The Financial Sector Advisory Committee) participates actively in SEPA work and in preparing the Directive on payment services in Europe, on which it provided an opinion on March 21, 2006. Various CCSF members, including its chairman, are members of the National SEPA Committee. The CCSF met on October 13, 2006 to examine the national migration plan.

Consumers are represented within the National SEPA Committee by five associations appointed among the 18 consumer associations officially recognised in France. These five representatives participate in the various working groups and one is the vice-chairman of one working group. Consumers in general are relatively unaware of the SEPA project and consumer associations themselves have only recently become involved, since they did not at all participate in work at the European level.

2. Stakeholder perceptions of SEPA's economic impact

Each stakeholder agrees that SEPA implementation must be successful and is trying to achieve this as harmoniously as possible. But although the utility of creating a Single Euro Payments Area is not disputed, the main groups of stakeholders do not always agree as to the extent of its potential benefits and when they will be achieved.

Banks see a "political case" for SEPA rather than a "business case". The European Commission's estimates of the potential SEPA benefits fail to take into account various types of costs that banks must bear (such as implementation costs and operation costs, particularly during the transitional period) and mistakenly include "e-invoicing" within the scope of the SEPA project. Considering the already high degree of payment instrument automation and standardisation in France, any further cost reductions resulting from European standardisation will certainly be limited.

The ASF's payment instruments working group considers that SEPA's potential economic impact cannot really be evaluated at this point.

For public administrations, implementing SEPA will require the upgrading of all of the budgeting and accounting information systems used to manage and process not only the French national government's dematerialised payment instruments, but also those of the various public-sector entities, local government authorities and social-security and health authorities. Doing this will require considerable investment which has not yet been estimated and a considerable amount of time, and all with little certainty as to the potential benefits, except perhaps easier access to taxpayers living abroad. Furthermore, there is always the possibility that the use of cheques increases with people rejecting the new SEPA instruments, which would be very costly for the treasury of public administrations. In any case, SEPA must enhance the development of automated payment instruments that are alternatives to cheques and must not end up compromising the progress the government has already made in the area of payments.

The representatives of corporations approve the Commission's objective of increasing competition between providers of payment services and ensuring greater transparency for users, to enable lower transaction costs.

The representatives of small and medium-sized enterprises (SME) feel that the SEPA project offers good potential benefits, particularly for companies with pan-European activities or which must do business with people throughout Europe. The SME representatives hope that harmonised payment instruments will reduce the cost of cross-border payments and speed up transactions. However, the cost of SEPA compliance must not exceed the benefits, particularly for SME that only do business within their national market. The acceptance of the new payment instruments will depend essentially on the cost of the changeover to SEPA.

The large corporate treasurers represented by AFTE are sceptical about the short-term financial benefits of the SEPA project for the following reasons:

– Cross-border payments represent a small percentage of the total number of payments made and are therefore not that important at this point.

– Currently, and until the specifications for the SEPA payment instruments are finalised, there is no way of knowing how much investment will be required.

– Without knowing how much banks will charge for payment services there is no way of knowing whether the return on these investments will be positive or not and whether there will be economic incentives to use the most automated payment instruments.

Corporate treasurers are therefore in favour of a transitional period that is sufficiently long to enable the SEPA developments to be integrated with other investments and also set up the organisational structures that will allow them to maximise the potential benefits.

Merchant representatives support the political vision associated with the creation of the Single Euro Payments Area and also agree with the European Commission's objective of increasing competition between providers of payment services and transparency for users, in order to lower transaction costs. The work conducted by the National SEPA Committee has made it possible to at last bring together all stakeholders to discuss how SEPA should be implemented, it being understood that various aspects remain to be further clarified.

Merchants feel that this project involves much more than just updating the regulatory framework for payment instruments. Since it aims to facilitate cashless payments throughout the European Union it will require that the same rules be observed in all countries. The speed with which merchants take up SEPA will depend on their perception of the cost-benefit ratio.

Consumer associations take note of arrangements in place at the European level in the context of the self-regulation of the European banking industry, under the aegis of the European Commission and the European Central Bank. They believe that, considering the objectives of creating a single market, implementing SEPA may benefit consumers in several ways, but only to a limited extent since there are very few cross-border payments between consumers and companies or between consumers themselves. However, the development of common payment instruments throughout the European market may promote competition that is beneficial to consumers. And yet consumer associations do have various concerns, in particular about the level of protection and the cost of SEPA payment instruments. This above all will determine to what extent consumers accept this transition. The most important factor is that the current level of consumer protection will be maintained, if not improved. It would be unacceptable that SEPA payment instruments offer less legal and technical security than that which is currently available. Furthermore, the switch to SEPA payment instruments must not result in an overall increase in the cost of payment services, or consumers are likely to simply refuse them. SEPA payment instruments should also not adversely affect France's current system of basic banking services.

3. Legal requirements

Whether or not people accept cashless payment instruments depends mainly on the trust that these instruments inspire. Although their acceptance is contractual in nature, their conditions of use may be governed by laws and regulations, particularly in respect of obligations to customers. A solid legal foundation that clearly specifies the duties and responsibilities of all parties to a payment transaction is therefore indispensable for the future SEPA transactions.

a. Legal requirements for ensuring smooth operation of SEPA

In most cases, a payment instrument involves four distinct stakeholders: the customer (or debtor) who pays; the client (or creditor) who is paid; the creditor's bank and the debtor's bank.

In the case of a SEPA payment, each of these stakeholders may be in a different country. This is why there is a need for a harmonised legal framework that governs relations between banks (such as the EPC's rulebooks) and also between the providers and users of payment services (such as Sections 3 and 4 of the Directive on payment services).

For example:

- Consumers in different countries who use the same payment instrument must have the same level of protection.
- If there were more severe legal requirements in a particular country, then banks in that country might have to bear higher processing costs due to these legal constraints. These banks and credit institutions would then be at a disadvantage to their European competitors.

b. Legal requirements for ensuring a smooth changeover in France

The key issue is to ensure that the transition to the new payment instruments does not result in a discontinuity in the legal framework that may compromise economic and business activity.

Here are three examples:

- How can it be assured that an authorisation to pay an electricity bill by a direct debit granted 10 years ago will still be valid if it is replaced by a SEPA compliant direct debit?
- Will a customer's standing order to have its bank transfer 60 euros to his child's account still be valid after the transition to SEPA credit transfers?
- Business contracts that specify the use of current payment instruments must remain valid after the transition to SEPA payment instruments.

Furthermore, French laws and regulations that refer to current payment instruments will have to be reviewed to determine whether or not and how they should be adapted to accommodate SEPA instruments.

The main concern of stakeholders is to avoid both the legal risk and high costs that would result from a "two-step" migration process. The National SEPA Committee is currently trying to determine which of the rules proposed in the Directive are absolutely essential to SEPA implementation and which, if any, of the current French rules might be a legal obstacle to the implementation of SEPA in France.

4. Payment infrastructures

Proper execution of a payment transaction requires that customer orders to the sending bank then be sent to the receiving bank. The transmission of the payment order between banks, which must be reliable, rapid and cost-effective, requires an exchange mechanism.

SEPA payment instruments will be able to use different types of exchange mechanisms, such as:

1. Bilateral – two banks agree to send their payment transaction flows directly to each other.
2. Centralised – banks send their transaction flows to a central payment infrastructure that then sends these flows to the various receiving banks.

The implementation of SEPA should result in a concentration of payment infrastructures. National infrastructures will most likely be gradually replaced by a limited number of competing and interoperable pan-European infrastructures, in accordance with the Eurosystem's objective.

These exchange mechanisms must be efficient enough to enable banks to meet the time requirements set for the SEPA payment instruments.

For example, a credit transfer from Reunion Island (a French Island in the Indian Ocean) to Kirkenes (Norway) must be made within three days to meet SEPA credit transfer rules[10]. This involves more than just the sending of electronic data and includes the transfer of funds, which requires the debiting and crediting of customer bank accounts in compliance with applicable laws (such as those established by EU authorities to prevent money laundering and the financing of terrorist activity) and the various regulations intended to ensure confidence in payment instruments and their security.

Several providers of payment infrastructures are seeking to position themselves competitively in response to the SEPA project, when work on the interoperability of infrastructures is currently under way at the European level.

For example:

- The EBA[11], with its STEP2 system, has been making cross-border credit transfers for several years now and has become a key player in interbank transactions within SEPA.
- STET, which was formed by several French banks, is working to develop a new technical system for interbank transactions, which should be completed in 2007. This system is designed to process both SEPA and national payment instruments.
- EACHA is currently working on a framework to ensure the technical interoperability of interbank payment systems.

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[10] As the EPC "rulebooks" currently stand, it being understood that the Directive on payment services allows less time.

[11] The full names of these infrastructure providers are provided in the Glossary at the end of this document.

All French banks will therefore be able to send and receive SEPA payment instruments using the infrastructures of their choice and in keeping with the overall SEPA timetable.

5. Some specific issues

SEPA payment instruments are to be used for both national and cross-border transactions. SEPA requirements will thus apply to existing payment instruments, which must be gradually replaced by the SEPA instruments (see section II above). These changes raise three specific issues in France:

a. How can the continuity of direct debit authorisations be assured when the transition to SEPA direct debits is made?

b. How can the various stakeholders be assisted in changing over from the national "RIB" bank account identification standard to the international "BIC / IBAN" standard?

c. What identifier should be used to identify creditors who present SEPA debit orders (SDD)?

a. Ensuring the continuity of direct debit authorisations

It is estimated that some 500 million direct debit authorisations have been signed in France. When switching over to SEPA direct debits, it is important that customers who have agreed to pay their bills by direct debit do not have to sign a new authorisation form, now known as a "mandate".

Two examples:

1. A customer who has already signed two direct debit authorisation forms; one to pay his power bill and another to pay his taxes, must not have to sign again mandates for these debits.
2. A customer selects an Internet access provider that suggests payment by SEPA direct debit. The customer must sign a mandate if he agrees.

Regarding the continuity of these mandates there are various legal, operational and customer information aspects to be considered.

With respect to the legal aspects, if the existing direct debit mandates were formulated in the general terms defined by the CFONB – which authorises the creditor to initiate the debiting of an account and is similar to the formulation selected for the SEPA direct debit – these authorisations will remain valid, unless cancelled by one of the parties, and are therefore not affected by the new interbank rules resulting from the changeover to SEPA. A statutory or regulatory measure that expressly applies new banking rules to existing contracts with customers would however strengthen this situation. On the basis of its work the Committee concludes that the continuity of current debit mandates may be assured.

As for the operational aspects, the bulk of direct debit collections could be processed within the framework of the current business relationship, and creditors could thus present a direct debit for any uncontested claim that is usually paid by direct debit by simply attributing a mandate number. It must be assured that debtors are properly informed before the first direct debit, for example on the invoice or the customer's account statement. A guidebook will be prepared on how debtors may challenge a SEPA direct debit and the consequences of this.

b. The switch from RIB banking details to BIC / IBAN

When a payment is made in France, the "RIB" bank identification code, a French standard, is used to identify a customer's account and bank. In SEPA, the RIB code will be replaced by the IBAN and BIC codes, to identify respectively the customer's bank account and the bank where the account is held, for both national and international credit transfers and direct debits.

What does this mean for consumers?

For several years now, the BIC and IBAN codes – which together constitute the full banking details – have been indicated on customer account statements under the heading "RIB" bank identification (or "RICE" bank ID for Caisses d'épargne savings banks). These codes are already frequently used to make cross-border credit transfers within the European Union.

This practice will be extended to national payments made using the "SEPA" payment instruments (SCT and SDD), for which users will always have to use these complete banking details.

Banks will communicate and inform their customers of this new rule, while making an effort to use terms that are easier to understand than "BIC" or "IBAN", such as bank identity statement or banking details.

What does this mean for companies?

Companies use files or databases to record the banking details of their suppliers, employees and customers. These files therefore include RIB codes that will have to be converted to BIC + IBAN.

The French banking community has proposed a series of measures to companies and public administrations to facilitate the switch from RIB to IBAN[12].

<u>IBAN</u>

Companies may convert the RIB codes in their databases into IBAN codes in compliance with conversion rules, either directly themselves or with the assistance of a software vendor. It goes without saying that

[12] A technical description of the various proposals is here-appended.

before making this conversion companies must make sure that their RIB codes are valid and correct.

BIC

The BIC code cannot be determined directly from the French RIB code without risk of error.

French banks have agreed to provide a "BIC / bank code" equivalency table that indicates the BIC code that each bank has selected to be the European standardised identification of the accounts it holds. The migration of customer databases could therefore be based on certified BIC⇔IBAN matching services.

Some of these services could be provided by non-banks, provided that they comply with the European Payments Council's specifications.

However, there may still be exceptional cases where the equivalency table cannot be applied to all of a credit institution's accounts.

Having the customer provide his or her banking details remains the best guarantee of their reliability, since these details were initially provided by the customer's bank.

More work will be undertaken to ensure maximum reliability and/or manage exceptional cases.

c. What identifier should be used to identify creditors who present SEPA direct debits?

Current French direct debit orders include a "national originator number" (NNE) that serves to identify the creditor. For SEPA direct debits an identification code is also provided that should make it possible to specifically identify a given creditor without ambiguity throughout SEPA. This identifier consists of an outer "capsule" that is the same for all countries but contains an identifier that each country is free to select.

The switch to this new identifier raises the question of whether the NNE national originator number should continue to be used or whether it should be replaced with another type of identifier. The National SEPA Committee will address this question in its subsequent work.

6. A first look at managing the transitional period

a. What is the "transitional period"?

The "transitional period" begins the day that the first SEPA payment instrument is used or received in France and ends the day that the national payment instruments that were selected for conversion to SEPA instruments are no longer used. During this period the "old" national instruments which are to be phased out and the new SEPA instruments will coexist.

All French stakeholders agree that the length of the transitional period must be sufficient to meet the specific requirements of the various stakeholders but must be no longer than necessary. It is also agreed that a completion deadline for the transitional period must be set on the basis of indicators (such as critical mass for example) and that progress reporting tools must be established. The transitional period completion deadline may be adjusted to meet the needs of each payment instrument.

If no completion deadline is specified for the transitional period(s) this would pose various problems for:

- Consumers, who might confuse the old and new payment instruments and make mistakes.
- Banks, due to the cost of maintaining two distinct IT systems, of training and maintaining sales staff competent in both, and of handling errors resulting from confusion between the old and new instruments, etc.
- Companies, who might be tempted to keep postponing investment decisions if a completion deadline is not specified.

Starting the transitional period on January 1st 2008, as recommended by the European Commission, the European Central Bank and the EPC, seems a little premature for non-bank stakeholders who do not plan to use SEPA instruments this soon. In addition to the time required to transpose the Payment Services Directive into French law the time that companies and service providers will need to prepare for the necessary organisational and technical changes and make the necessary IT developments must also be taken into consideration.

b. Work to be carried out by the main stakeholders

Before the start of the transitional period banks will have completed the necessary IT developments required to send and receive SEPA credit transfers and direct debits, in compliance with the EPC rulebooks. They will also have to have completed their training of sales staff and their adaptation of their customer brochures and, if necessary, account agreements.

Before the migration to SEPA a series of tests at the national and cross-border levels involving all stakeholders will have to be performed. Planning these tests is one of the tasks that remains for the National SEPA Committee.

Merchants, companies and public administrations must be able to gradually adopt the new SEPA payment instruments. This will require the modification of IT systems, of various procedures and contracts and the implementation of an internal and external communication system.

Regarding payment cards, since the work on the range of payment instruments has revealed no need for substantial technical modification over the near term, the transitional period will simply involve the deployment of SCF-compliant cards. Further work may prove necessary over the medium term, depending on the results of the standardisation work currently being conducted at European level.

The investment policies and budget procedures of large corporations and public administrations will require them to include the developments required for SEPA in other investments that are already scheduled. There seems to be little chance that these stakeholders will decide a special investment programme specifically for SEPA.

As soon as possible, the SEPA Committee will decide exactly the precise date and operational modalities of the phasing out of the national instruments to be migrated (see section 8 below).

7. What the French stakeholder community expects from other European stakeholders

The EPC must set forth stable specifications for the European payment instruments to be made available as of January 1, 2008. The changes to be made to the instruments planned for 2008 will then have to be scheduled and organised, while taking into account the time that the various stakeholders will need to assimilate these changes.

Since SEPA is a European project, coordination between the various countries is critical to its success. For one thing, we must know which countries will be ready on January 1, 2008. All of the SEPA countries will not be ready simultaneously, the same day. The EPC, with the support of the European Commission and the Eurosystem, has set the objective that all of the euro area countries be ready by January 1, 2008. However, this obligation does not apply to the non-euro countries. Some will choose to start their migration along with the euro area, while others will prefer to begin later.

We must therefore know when each country intends to start its migration.

Banks must be able to provide their customers with the migration starting date of each country, not a list of starting dates for each bank.

For example:

– A French creditor suggests to its customers in three SEPA countries that they pay their bills by SEPA direct debit.
– This creditor will only be able to do this and thus genuinely take advantage of the Single Euro Payments Area if he has the assurance that all of the banks in these three countries are ready to receive and process SEPA direct debits.

Regarding SDD, the coexistence of two distinct mandate flows raises the question of which one to choose. In France, both creditors and debtors would like to be able to choose the mandate flow.

Large creditors disapprove of the optionality of the so-called Debtor Mandate Flow (DMF), which allows debtors to provide their banks with a debit mandate. A creditor that issues SDD throughout SEPA would have no assurance that its SDD using the DMF will be accepted by all debtor banks. This seems to be in contradiction with SEPA's objective of ensuring that the same payment instrument can be used in all SEPA countries. Companies furthermore feel that introducing a second procedure in 2007 will only slow down the necessary developments.

As a result, the major creditors would like all SEPA banks (including French banks) to develop both CMF and DMF mandate flows.

French merchants would like to see SEPA's card payment potential optimised. They hope that ultimately all merchants will be able to accept all SCF-compliant cards presented for payment by customers.

Consumer representatives insist on the need for a coordinated transition between the various countries, since otherwise there will be no advantage to switching to SEPA instruments within the national market. They are also concerned with the lack of visibility as to the implementation dates, particularly considering the uncertainty of the draft Payment Services Directive adoption and its consequences in terms of communication to consumers.

In addition to the coordination of decision-making between the various European stakeholders, various technical issues must also be coordinated, such as the organisation of the cross-border tests, which will involve the banks and payment infrastructures of various countries.

Each country and each major stakeholder will need to communicate about SEPA. Although this communication must reflect each country's specific needs, it must not create confusion in the minds of the general public. We therefore welcome with great interest the cooperation between the European Commission, the European Central Bank and the EPC about SEPA communication.

8. Key phases, by type of instrument and stakeholder

The position of each stakeholder (company, merchant, public administration that uses payment instruments, bank, consumer or software vendor) depends on its specific needs and constraints. This section summarises the main conclusions reached by the stakeholders for the work of the National SEPA Committee.

For the euro switchover, each stakeholder was obliged to be ready by the date specified by the authorities. For SEPA the situation is quite different, since only European banks have made a commitment, according to the principle of self-regulation.

Non-banking organisations consider, in the current state of the relevant legal analyses available, that they will not be in a position to decide whether to begin developments until the Payment Services Directive is transposed, which will remove any legal uncertainty as to the bank-customer relationship. Since budgets for 2007 have already been decided, the decision to begin this work could be made in early 2008. They also estimate that it will take between 18 and 30 months to set SEPA up, including software development or installation, testing, database migration and change management. Some developments could therefore happen as late as 2011 for some of these stakeholders.

The French Ministry of the Economy, Finance and Industry feels that the public sector could need more time to implement SEPA due to the constraints related to public procurement procedures and the heterogeneity of government IT systems. It has also announced that the decision to implement SEPA will only be made after impact studies are conducted, as decided at the ECOFIN Council meeting of October 10, 2006.

Therefore, SEPA instruments should come into use in mid-2009, with the timetable varying somewhat between the various stakeholders. It is important to note that companies are unlikely to want to continue to manage two separate systems and will probably start replacing French payment instruments in mid-2009.

Some stakeholders could reach critical mass by the end of 2010, while others expect this to take until the end of 2011. More work will be necessary to precisely define critical mass[13] and a national reporting tool will have to be established to monitor implementation progress. Using this tool the National SEPA Committee would be able to determine whether the critical mass has been reached. Since non-bank stakeholders would like the transitional period to end relatively rapidly, and approximately one year after critical mass is reached, the Committee would thus be able to confirm the date at which national payment instruments would no longer be valid.

This overall approach must be adjusted to each type of instrument, which means that a different timetable will be required for each one.

[13] The National SEPA Committee currently envisages that a SEPA instrument reaches its critical mass when it accounts for 75% of transactions by volume and is used by 50% of payment order originators.

Table 1 – Projected timetable for credit transfer migration

"ORDINARY" CREDIT TRANSFERS	2007	2008 2009	2010	End 2011?
BANKS	Preparation - development	SEPA credit transfers are made available	Use increases and critical mass is reached	Ordinary national credit transfers discontinued
COMPANIES	Preparation	Developments Use begins		
PUBLIC ADMINISTRATIONS ON THE NATIONAL SEPA COMMITTEE[14]	Preparation	Developments (the last will be made in 2011) Use begins (to be confirmed)		
CONSUMERS	Preparation	Use begins		
SOFTWARE VENDORS	Preparation - development	Made available		
INFRASTRUCTURES	Preparation - development	Made available		

National SEPA Committee – October 2006

Pursuant to the MURCEF Act, French banks must inform their customers of all changes in the bank-customer relationship three months in advance, which means that a clear and stable legal framework will be required before October 1, 2007 if SEPA credit transfers are to be made available as of January 1, 2008.

Due to the commitment made by the banks, customers may have SCT credited into their accounts even though they are not ready to make them themselves.

For example:

– A company decides not to issue any SEPA credit transfers before mid-2009.

– This company's bank has agreed to receive and process SCT as of January 1, 2008. If the bank receives an SCT for this customer it may credit it to the customer's account.

[14] Excluding local public authorities, for which the migration schedule will be included in a subsequent version of the migration plan.

Table 2 – Projected timetable for direct debit migration

This timetable may be revised depending on what is decided concerning the second mandate flow.

ORDINARY AND EXPRESS DIRECT DEBITS	**2007**	**2008 2010**	**2011**	**End-2012?**
BANKS	Preparation - developments	The SEPA direct debit is made available (CMF) then DMF	Use increases and critical mass is reached	Ordinary and express national direct debits are discontinued
COMPANIES	Preparation	Developments (the last will be made in 2011) Use begins		
PUBLIC ADMINISTRATIONS ON THE NATIONAL SEPA COMMITTEE[15]	Preparation	Developments (the last will be made in 2011) Use begins (to be confirmed)		
CONSUMERS	Preparation	Made available and use possible		
SOFTWARE VENDORS	Preparation - developments	Made available		
INFRASTRUCTURES	Preparation - developments	Made available		

National SEPA Committee – October 2006

[15] Excluding local public authorities, for which the migration schedule will be included in a subsequent version of the migration plan.

French banks have made a commitment to be ready to issue and receive SEPA direct debits (SDD) with a transmission of the mandate from as of January 1, 2008, provided they have a clear and stable legal framework prior to October 1, 2007.

In light of the EPC's work on an optional mandate flow by which the debtor's mandate will be sent to the debtor's bank, French banks will offer this second procedure as soon as allowed by the availability of the required functional specifications and standards.

Regarding interbank payment orders (TIP) and electronic payment orders ("*télérèglement*"), migration will occur after 2008 and the National SEPA Committee will therefore have to re-examine how this migration may be made (see section II above).

For consumers, the transitional period will have the following consequences:

– Assuming that a consumer wishes to pay two new creditors A and B by direct debit, if creditor A uses the national direct debit while creditor B uses the SDD with the mandate sent from the debtor to the creditor (i.e. "creditor mandate flow"), the "mandate" to be completed by the customer will be slightly different in each case. For example, creditor A will request "RIB" bank details whereas creditor B will require the customer to provide the international BIC / IBAN codes. In one case, the "mandate" sent to the creditor will be kept by the creditor and in the other it must be forwarded to the debtor's bank.

– in case the consumer requests a refusal or a refund of a SDD collection the consumer must know whom to turn to, whether the direct debit is national or SDD. Both creditors and banks must make sure that the procedures to be followed in such cases are clear and readily available to consumers.

Regarding electronic bills of exchange and promissory notes (LCR and BOR) the decision is still pending in the relevant.

As for **card payments**, French banks have committed to comply with the EPC's timetable and will begin to distribute, issue and acquire payment cards in compliance with the SCF as of January 1st 2008. After end-2010, all general-purpose payment cards in circulation issued by French banks will comply with the SEPA card framework (SCF).

Section II of this document describes the SCF's impact on current payment cards, and the various issues remaining to be dealt with.

Compliance with the SCF will be relatively transparent to card-holders, who are already familiar with EMV- compliant cards and using the PIN code.

For merchants, the main technical change resulting from the SCF will be the transition to the EMV standard. In France, the process of converting merchant terminals is nearing completion with the migration to CB5.2. Thereafter the subsequent changes will involve harmonisation at the European level and in particular the standards used for the automated end-to-end straight-through processing of card payments. The EPC is currently working on the standardisation for the various phases of card payment processing and is expected to arrive at a solution by 2008. The timetable and procedure for adapting to these new standards will have to be specified in due time within the framework of the SEPA migration work, in consultation with the concerned stakeholders.

Regarding the card networks:

– GIE CB will have to comply with the principles of the EPC's SEPA card framework.

– Issuers of three-party cards will have the option to either comply with the SCF or not.

9. Communication to support SEPA in France

a. What communication will SEPA require?

At this point the National SEPA Committee has not yet developed a communication strategy but has simply defined the guidelines shown below. It will be necessary to:

- Show that the various stakeholders responsible for this complex project have its organisation well under control.
- Favour the use SEPA payment instruments by customers.
- Make sure that each phase of the project is clearly presented, and that the communication materials enable banks and companies to understand the work that will be required.
- Assist SME and consumers with the change process, even though the migration to SEPA will not disrupt consumer payment habits substantially.

Working from these guidelines, the National Committee will prepare a communication plan that clearly indicates the payment instruments that will be affected by SEPA migration and the migration process. This plan will be the common foundation for communication. Each stakeholder (bank, company, merchant, consumer association or public administration) will then adapt its own communication and may thus provide more relevant information to its customers or users.

b. Initial and subsequent communication

Knowledge of SEPA is currently limited to a small "club" of experts and has yet to spread to all interested stakeholders. The first phase of communication will therefore consist in increasing the awareness of the importance of the SEPA project. This communication effort must be borne by all stakeholders, as was the case for the euro switch-over.

As SEPA comes to be implemented, more specific needs will become apparent, such as describing how SEPA payment instruments are used, explaining the transitional period and, at the end of this period, facilitating the phasing out of the national direct debits and ordinary credit transfers.

c. Addressing the various stakeholder requirements

"Companies" have been identified as a high-priority segment, with a need for concrete information to fully understand the nature of the changes they must prepare for. The main thing is to ensure that the "decision-makers" (i.e. top management) of companies of all sizes are aware of the SEPA timetable and SEPA consequences, since this will require investment.

Within the "Companies" segment more specific requirements will certainly be identified for such categories as SME and merchants. A special communication effort could be made to inform chartered accountants and service companies.

Communication with consumers will also support the efforts of banks, companies and merchants to communicate with their customers and explain the basic principles of the new legal framework that will govern the bank-customer relationship under the Payment Services Directive. It must be understood that the PSD applies not only to SEPA payment instruments but also to current credit transfers, direct debits and card payments.

d. Ensuring the "coherence" of stakeholder communication

The promoters of the SEPA project (i.e. the European Commission, the Eurosystem and the EPC) must ensure that communication efforts are consistent and coherent with each other and must be attentive to the specific problems that stakeholders may have in implementing SEPA. This is why the National SEPA Committee favours the EPC's initiative of providing European banks with a common communication "package" which they will be able to adapt to their national environment.

Appendices

The National SEPA Committee

To coordinate the implementation of pan-European payment instruments in France, Banque de France and the French Banking Federation formed the National SEPA Committee in April 2006. This Committee, which Banque de France and the FBF co-chair, has 45 members who represent the banking industry and the future users of the SEPA payment instruments, which include public administrations, companies, merchants and consumers.

Co-chairmen

Didier Bruneel, Director General Operations, Banque de France

Philippe Citerne, Chairman of the FBF's Payment Instruments Steering Committee

Members

Banks credit institutions and equivalent	Card schemes and payment infrastructures	Public administrations	Customer representatives
Banque de France Banque Populaire BNP Paribas Caisses d'épargne Caisse des dépôts et consignations Crédit Agricole Crédit mutuel – CIC HSBC La Banque postale Société générale IEDOM (Issuing Institution of the Overseas Departments) OCBF ASF (French Association of Financial Companies) The CFONB chairman	GCB (CB Bank Card consortium) GSIT STET	DGCP (public accounts department) DGI (tax department) DGME (government modernisation department) DGTPE (treasury and economic policy department) DGCCRF (competition, consumer protection and fraud repression department) DGDDI (customs and indirect taxes department) CCSF chairman DSS (social security department) Ministry of Justice	Five members named by the *Conseil du commerce de France* (Commerce Council of France) Five representatives of consumer associations AFTE CGPME MEDEF

Parliament representatives and persons chosen for their expertise

A Member of Parliament
A Senator
A representative of the Economic and Social Council
A representative of the media

National SEPA Committee working groups

At its meeting of April 7, 2006, the National SEPA Committee formed five working groups to prepare the migration plan. These groups began to meet in April 2006.

Working Group on the range of payment instruments in 2008

Task

To determine the French range of payment instruments including SEPA payment instruments that will be made available as of 2008. These payment instruments will replace those currently used in France by 2010. This working group is responsible for determining the future of each national payment instrument within the SEPA framework, whilst ensuring no deterioration of current services.

Deliverables

- The list of national payment instruments that will be affected by SEPA.
- The "discrepancies" between current instruments and the SEPA instruments, i.e. credit transfers, direct debit and card.
- The modifications and/or additional services required to integrate SEPA payment instruments with existing French instruments and ensure that users enjoy a level of service that is at least equivalent to their current level of service. This includes the integration of interbank payment orders (TIP) and electronic payment orders ("*téléréglement*"), for example.
- Whether the implementation of SEPA may provide opportunities to streamline the current range of payment instruments and a list of any national instruments that may be phased out.
- An evaluation of the impact of SEPA implementation on such measures as access to "basic banking services" and obligations to "make banking easier for everyone".

This working group's report may be obtained from the SEPA secretariat at secretariat.sepa@banque-france.fr.

Working Group on SEPA Direct Debit Mandates

Task

To define the process for migrating direct debit authorisations to SEPA direct debit mandates.

Deliverables

- Ensuring continuity between current authorisations and the future direct debit mandates, and in particular finding solutions that avoid the need to sign again existing debit authorisations
- This group may also examine the issue of ensuring the continuity of debtor TIP and *téléréglement* order authorisations, it being understood that the general requirements of TIP and *téléréglement* payments will be dealt with by the "2008 Payment Instruments" working group.

– Making the choices required for migration, such as the creation of a mandate identifier.

– Determining the security obligations that parties to transactions will have to observe when sending and processing direct debit mandates.

Working Group on the RIB to IBAN switchover

Task

To organise the transition from using RIB bank account identification codes to using IBAN.

The IBAN code is the only type of account identification used by SEPA credit transfers and direct debits. SEPA implementation will therefore require that the IBAN code be used to identify bank accounts in all transactions, including national.

Deliverables

– The procedure that originators must follow to provide beneficiary BIC / IBAN codes.

– The procedure for converting RIB codes in customer and vendor databases to BIC / IBAN codes.

– Ensuring that interbank payment systems have enough information to handle the switch from RIB to BIC + IBAN.

Working Group on the Transitional Period

Task

To organise the transition of the various stakeholders toward SEPA payment instruments and standards in the 2008 – 2010 period.

The organisation and planning of the transitional period – which begins in 2008 when the SEPA instruments are first made available and ends in 2010 when SEPA migration is completed – must be discussed by all stakeholders to ensure that the instruments deployed in 2008 are widely accepted and that the "old" and new instruments may coexist as smoothly as possible and only for as long as necessary.

Deliverables

– Procedure for coordinating the deployment of the payment instruments

  - Determining the deployment criteria for each specific instrument, type of user, etc.

  - Defining coordination procedures that ensure that the various stakeholders (banks, companies, public administrations, infrastructure operators, etc) will accept the new instruments.

– Transition planning:

  - The various potential migration scenarios (e.g. general or individual switchover, by user or payment instrument category).

- Defining the optimum duration of the migration phase.
- Questions or suggestions concerning communication during the 2008-2010 transitional period, which are to be submitted to the "Communication" working group.

Working Group on Communication

Task

To organise the communication concerning SEPA project implementation. This includes identifying requirements, defining tools, setting a timetable and ensuring that communication in France is consistent with the overall communication strategy for Europe.

Deliverables

– A communication plan.

– A "communication kit" based on the common communication "package" and made available to the various stakeholders in accordance with their needs.

Technical details of the RIB to BIC / IBAN switchover

Rules for identifying bank accounts in SEPA

For SEPA payment instruments (other than cards), customer bank accounts will be identified using the BIC + IBAN code combination. SEPA payment instruments are to be used indiscriminately for both national and cross-border payments in the Single Euro Payment Area.

What is a Bank Identifier Code (BIC)?

The BIC serves to identify a bank regardless of where it is located. It enables the originator's bank to automatically route a transaction to the beneficiary's bank.

BIC codes have a length of 8 or 11 characters[16].

What is an International Bank Account Number (IBAN)?

The IBAN is the code used in Europe to identify a bank account.

The IBAN:

– ensures originators and their banks that the beneficiary's account has been identified with certainty, and

– ensures beneficiaries that the funds will be deposited in their account.

Only the bank that holds the account is qualified to create this code.

The integrity and security of the IBAN is verified using check digits.

The IBAN may contain up to 34 characters with each EU country having a specific IBAN length (the French IBAN is 27 characters long)[17].

How BIC and IBAN are used

All banks in Europe provide their customers with the BIC and IBAN codes for their accounts, which together represent their standardised European banking details. Customers must indicate these codes to their counterparties so that they are systematically used for SEPA payments. Companies thus have to retrieve these identifiers and enter them into their information systems.

Determining the BIC and IBAN for French counterparties

The rule is that payment originators must obtain banking details in the form of BIC + IBAN codes directly from new customers.

To bring existing databases into compliance, the ISO/DIS 13616 standard specifies formulae that may be used to convert RIB to IBAN with no risk of error, even when account numbers include letters. These algorithms must only be used on RIB that have first been verified to be valid. To facilitate "self-certification" of this conversion, the French banking industry will provide a RIB-IBAN correspondence test file.

However, the BIC cannot be determined directly from the French RIB code without risk of error.

[16] The BIC consists of a sub-code that identifies the financial institution (4 characters), a country code (2 characters) a service code that is generally geographic (2 characters), and may be supplemented with a 3-character branch code.

[17] The IBAN consists of two letters that indicate the country where the bank account is located, two check digits and the national account identifier (the RIB code for France) the length of which may vary between countries.

French banks have agreed to make available a "BIC / bank code" equivalency table that indicates the BIC code that each bank has selected to be the standardised European banking details for its accounts. The migration of customer databases could therefore be based on certified BIC-to-IBAN matching services. However this service may only be used during customer data migration and this equivalence table cannot totally replace the customer's provision of banking details.

There may indeed be some exceptional cases where the equivalency table would not apply to all of a bank's accounts.

Having customers provide their account details remains the best guarantee of their reliability, since these details were initially provided by the customer’s bank.

Some services may be provided by non-bank stakeholders, provided they comply with the European Payments Council's specifications.

Glossary

- **EBA**: the Euro Banking Association
- **ACH**: Automated Clearing House
- **ACOSS:** Agence centrale des Organismes de Sécurité Sociale (the central agency of social-security organisations)
- **AFTE**: Association Française des Trésoriers d'Entreprise (the French corporate treasurers association)
- **ATM**: Automated Teller Machine
- **B2B**: business to business
- **BIC**: Bank Identifier Code
- **CGPME**: Conféderation Générale des Petites et Moyennes entreprises (the small and medium-sized enterprises confederation)
- **CMF**: Creditor Mandate Flow
- **CSM**: Clearing and Settlement Mechanism
  A mechanism that enables banks to clear and settle payment transactions. SIT in France is one example of a CSM.
- **DGTPE**: Direction Générale du Trésor et de la Politique Économique (the French Treasury and Economic Policy Department)
- **DMF**: Debtor Mandate Flow
- **EACHA**: European Automated Clearing Houses Association
- **ECB**: European Central Bank
- **EMV**: Eurocard Mastercard Visa
- **EPC:** European Payments Council
  Its main task is to design the future pan-European payment instruments.
- **FCD**: Fédération des entreprises du Commerce et de la Distribution (the Federation of Commerce and Distribution)
- **FBF:** the French Banking Federation
- **Framework**: a set of high-level principles.
  The EPC has specified frameworks for payment cards, infrastructures and cash payments.

- **IBAN:** International Bank Account Number
  Used in conjunction with the Bank Identifier Code (BIC), it will replace the RIB code to identify bank accounts.

- **NLF:** New Legal Framework
  Used to refer to the draft directive on payment services in the European Union.

  NNE: The number attributed in France to enable creditors to issue direct debits.

  PSP: A Payment Service Provider, includes banks and payment Institutions

- **RIB:** The French bank account identification code

- **RICE:** The account identification code used by Caisse d'Epargne savings banks

- **SCF**: SEPA Cards Framework
  The framework that governs payment card transactions in Europe and specifies the high-level principles that govern the role and responsibilities of banks and card networks in harmonising card payments in Europe.

- **Scheme:** This term may have several meanings:
  - Card scheme: a card system, such as Visa or Mastercard, for example
  - SEPA scheme: the scheme for SEPA credit transfers or direct debits specified by the EPC. These schemes are presented in "rulebooks".

- **SCT**: SEPA Credit Transfer
  The future "ordinary" credit transfer to be used in Europe and which will replace current ordinary transfers.

- **SDD:** SEPA Direct Debit
  The future European direct debit that will replace current direct debits.

- **SME**: Small and Medium-sized Enterprises

- **SIT:** Système Interbancaire de Télécompensation
  The national ACH used to send and clear some 11 billion interbank payment transactions in France each year.

- **SECA:** Single Euro Cash Area
  The geographic area in which all cash transactions (recycling, deposits and withdrawals) are subject to the same requirements.

- **SEPA**: Single Euro Payments Area

- **SIRET**: The national code used to identify business entities

- **STET:** Systèmes Technologiques d'Échange et de Traitement
  The company responsible for a new technical system for interbank transactions