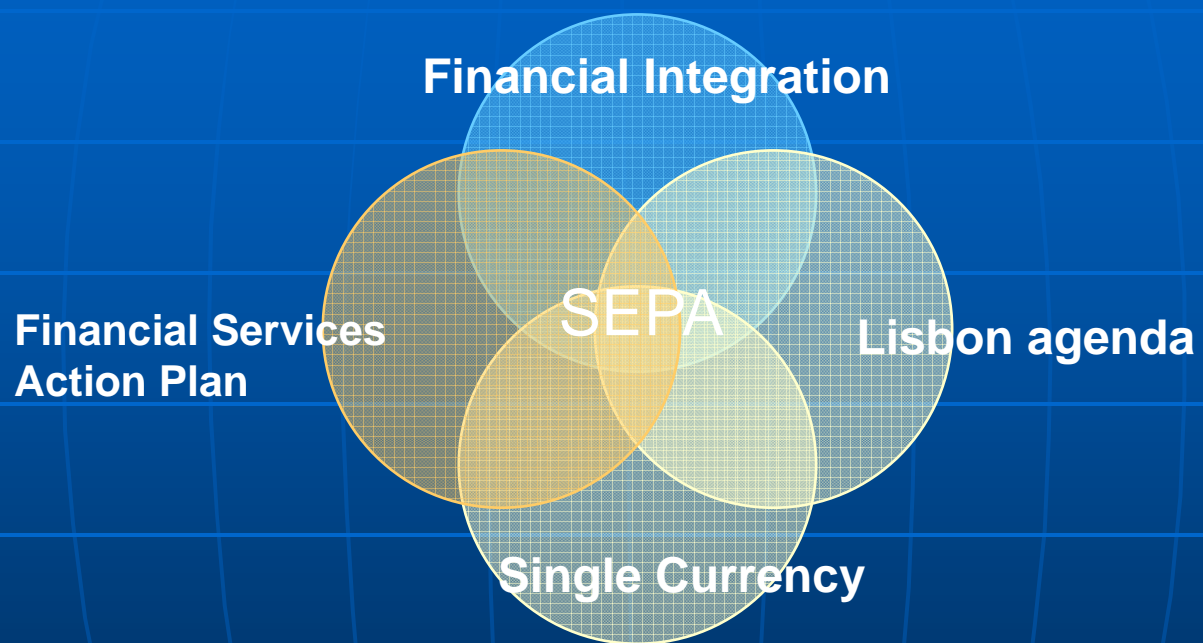




The regulatory framework for payments in Europe

Céu Pereira,
Permanent representation of Portugal
to the EU
(with little contribution by Maria
Chiara Malaguti)







The EU: still a fragmented market!!!!





Permanent Representation of Portugal to the EU



“The legend of Sir Leon Brittan’s book”

The story is that Sir Leon Brittan as an EU trade Commissioner in the early 90’s, ordered a book costing around £10 but the charges came to £20



Alternative theory: bureaucrats fed-up paying bank charges when moving money back and forth from Brussels



...but the real catalyst for change:

 the Euro changeover

- **Regulation 2560/2001 on cross-border payments in euro brings obligation to apply same price for cross-border and national transfers in the EU since 2002**



.....a single currency but still a fragmented market

Regulation 2560/2001 had kick-starting effect

➡ But it left banks to bear the extra costs

Some national payments are quite efficient

➡ But huge differences between countries of a factor 1 to 8

Efficiency of cross-border payments is substantially lower

➡ But should be at par with the best performing national markets

Well-functioning national markets exist

➡ But remain fragmented



SEPA= Single Euro Payments Area=

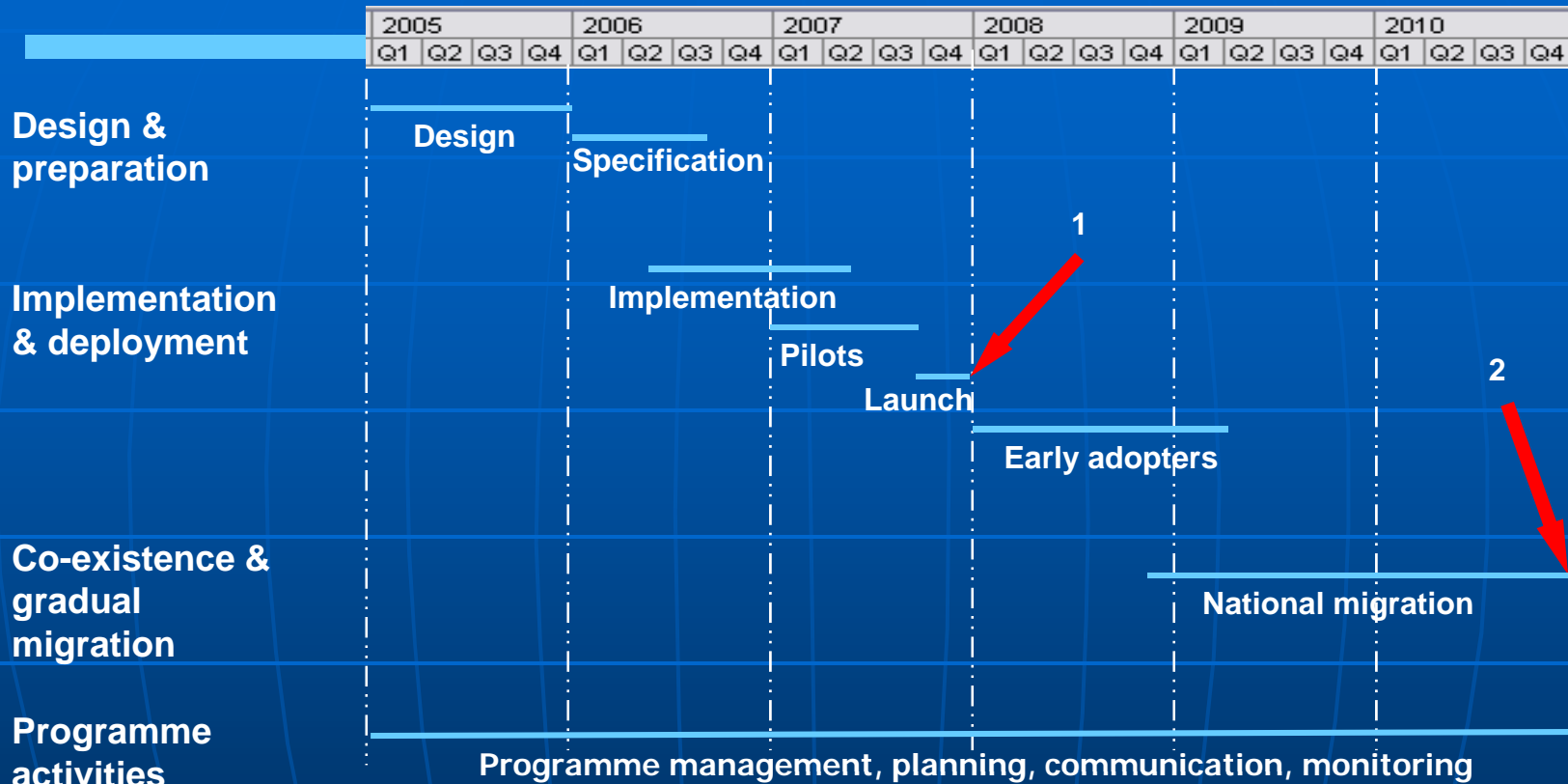
**An area where it is as easy, convenient,
safe and efficient to make payments
within or between national borders in
Europe**



SEPA in facts and figures:

- A private initiative supported by EU institutions and governments
- For Euro payments
- In 27+4 countries
- Will be offering SEPA instruments from 2008
- Expects to reach critical mass by 2010

EPC's SEPA Timeline



Milestones

1. 2008 EPC instruments available to citizens
2. 2010 Critical mass migrated so SEPA is irreversible



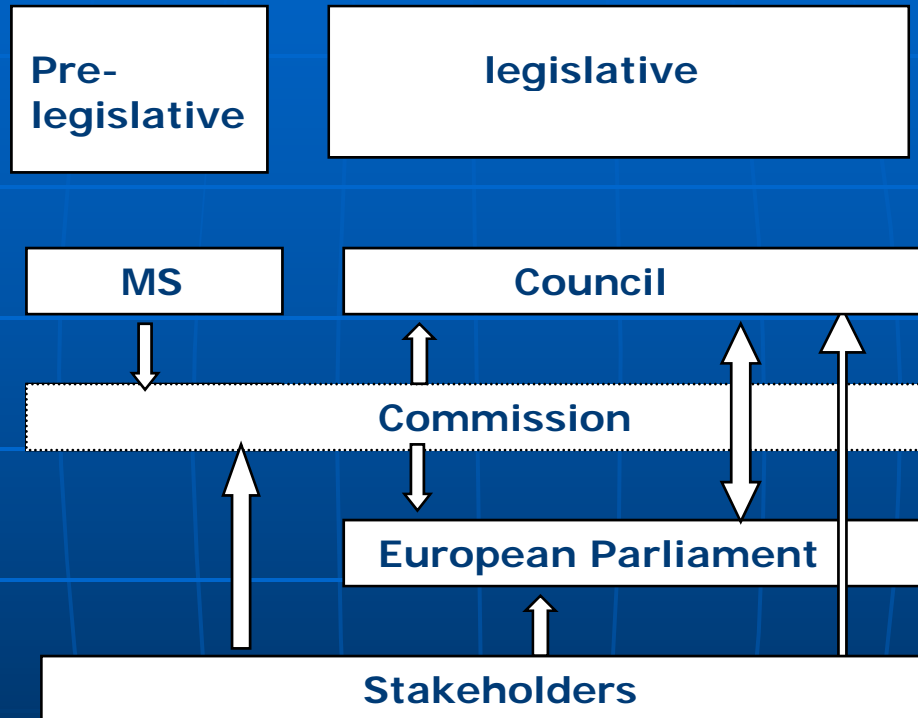
The Payment Services Directive: a legal framework for SEPA (adopted October, 3rd 2007)

- o **Creation of a new category of financial institutions: payment institutions, with specific regulatory framework**
- o **Comprehensive transparency requirements in order to enhance consumer protection**
- o **Level playing field for all payment systems to maintain consumer choice**
- o **Framework defining rights and obligations for the different parties, underpinning the SEPA project**



The pre-legislative and the legislative process of the Payment Services Directive:

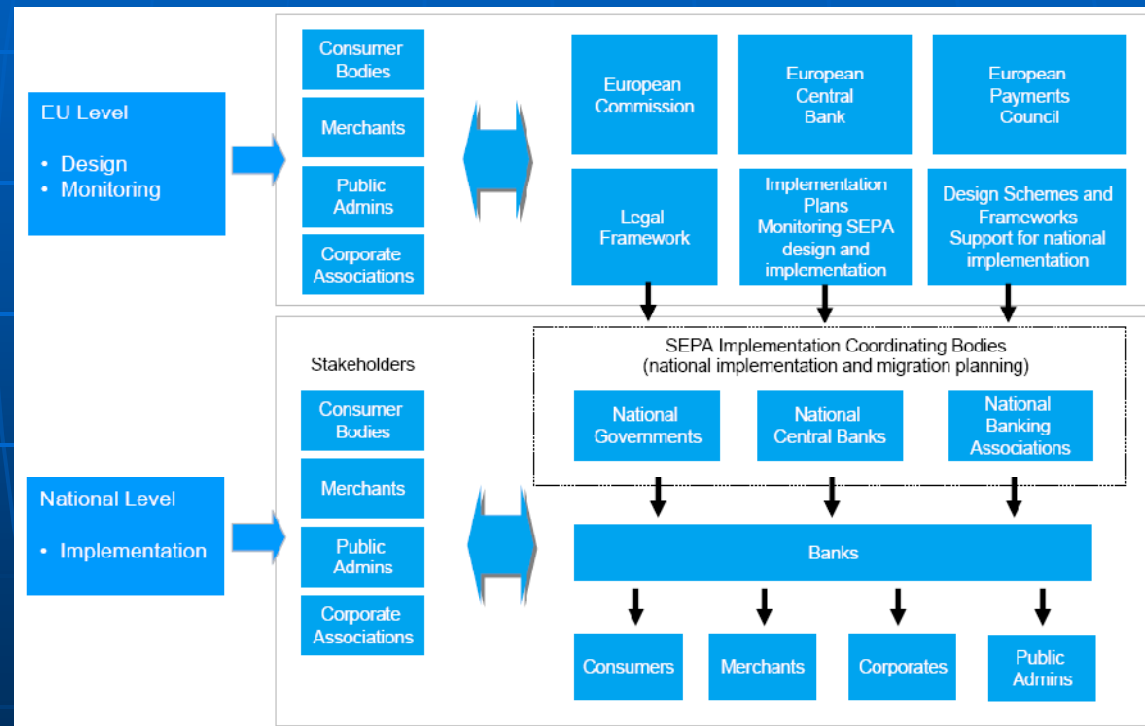
- **5 years to consult stakeholders and MS**
- **A bit more of 1 year of negotiation between Council and Parliament**
- **2 years of transposition by MS**



Several layers in the process.....



A multiplicity of actors...





The PSD: an interesting case-study

- **Unprecedented scope and scale**
- **“Start from scratch”**
- **Momentum and support by the industry**
- **Legislate for the future payment instruments**



Protection of users
Competitive EU market

Pillar I

Authorization and supervision regime for PI

Authorization regime
Supervisory regime
Safeguarding measures for users
Granting fair access of PI to payment systems

Pillar II

Transparency requirements applicable to all PSPs

pricing
Applicable conditions

Pillar III

Rights and obligations of PSU and PSPs in a payment transaction

Rules for unauthorized payment transactions
Rules on irrevocability
Rules on refunds
Rules on execution time
Rules on defective execution



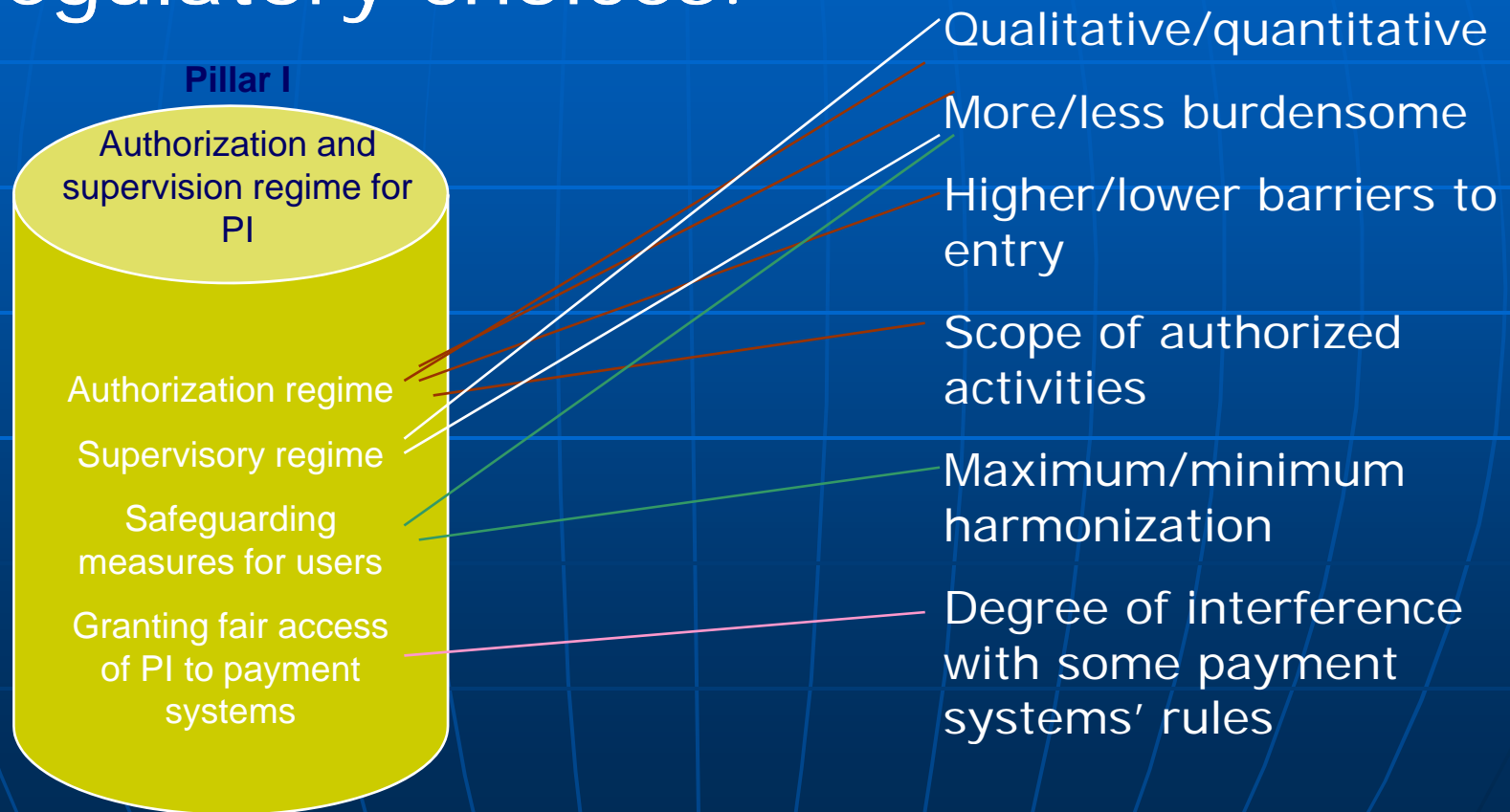
Main drivers for PSD:

- Increase competition
- Increase transparency
- Reinforce consumer protection
- Promote automation and STP
- Promote innovative and safe payment instruments



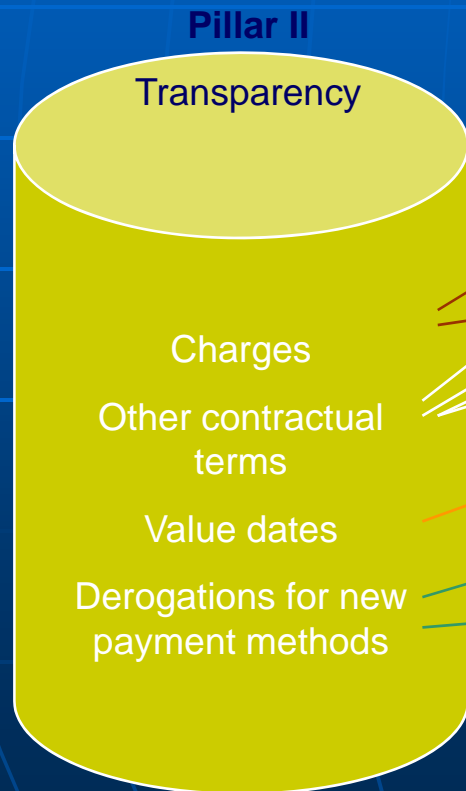


Regulatory choices:





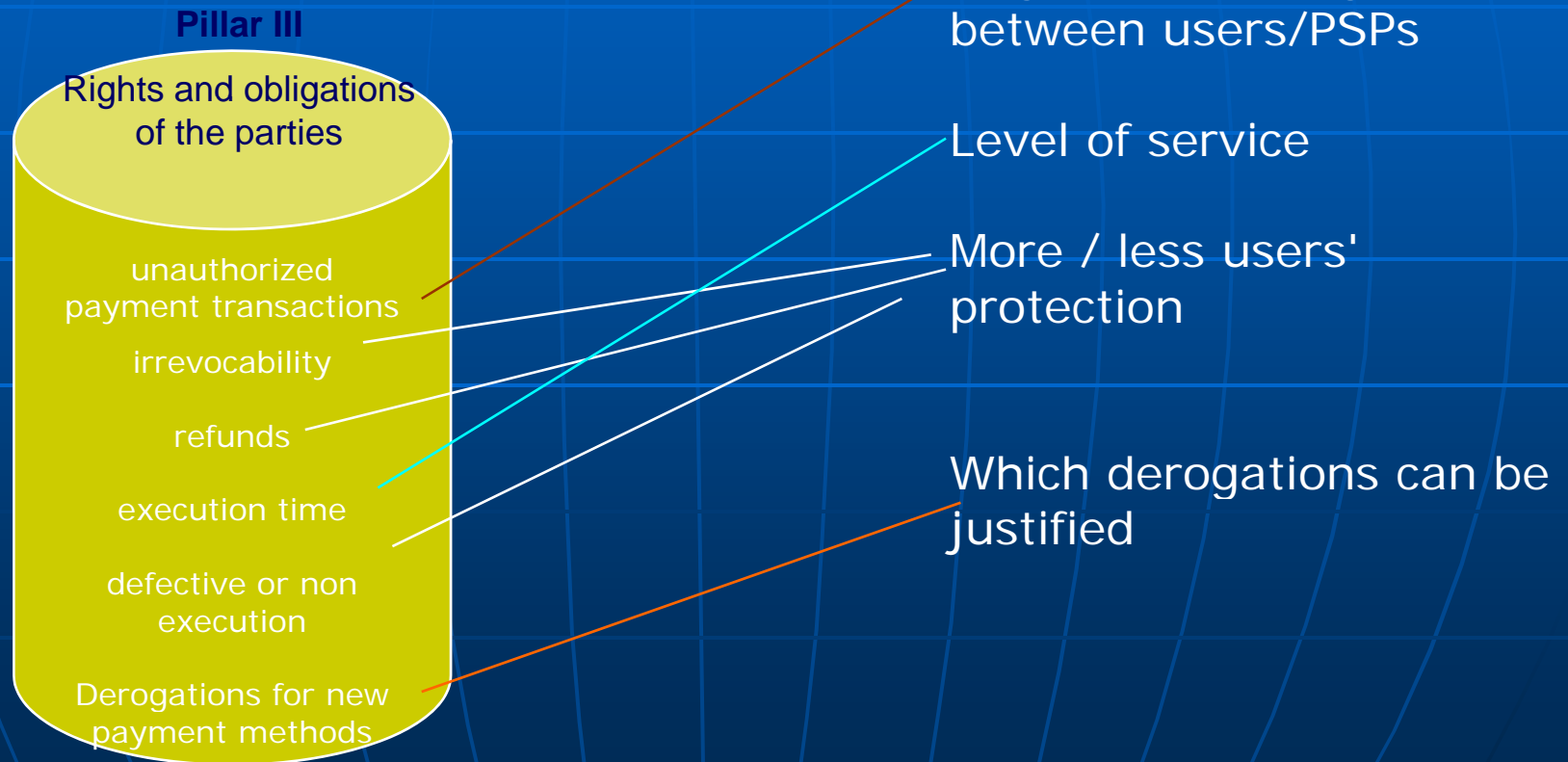
Regulatory choices:



- More/less information
- free of charge or not
- Make available/provide
- Support: paper or other?
- No hidden tariffs
- Maximum/minimum harmonization
- Which derogations can be justified



Regulatory choices:





At the end...

- More competition
- More efficiency
- More transparency
- More consumer protection
- More automation, STP, innovative products
- Level playing field
- **EU integrated market**



What's next?...

Fully-functioning EU payments market will still require as next steps:

Transposition of legislation
Implementation by the industry
Critical mass.....

The Portuguese Presidency of the EU in the second semester of 2007 is supporting SEPA becoming a reality

Learning from Ms Pereira' presentation

What lesson can we get from SEPA for domestic regulation?

- Need for a modern and coherent legal framework for payment services
- Reliability and stability
- Level playing field
- Transparency and consumer protection
- **A step further: link with regulation of capital markets and forex**

Learning from Ms Pereira's presentation

What lesson can we get from SEPA for regional coordination?

- Coordination of national provisions on prudential requirements
 - .. On access of new payment service providers
 - .. On information requirements
 - .. On respective rights and obligations of payment services users and providers
- **This also without the precondition of a common currency**