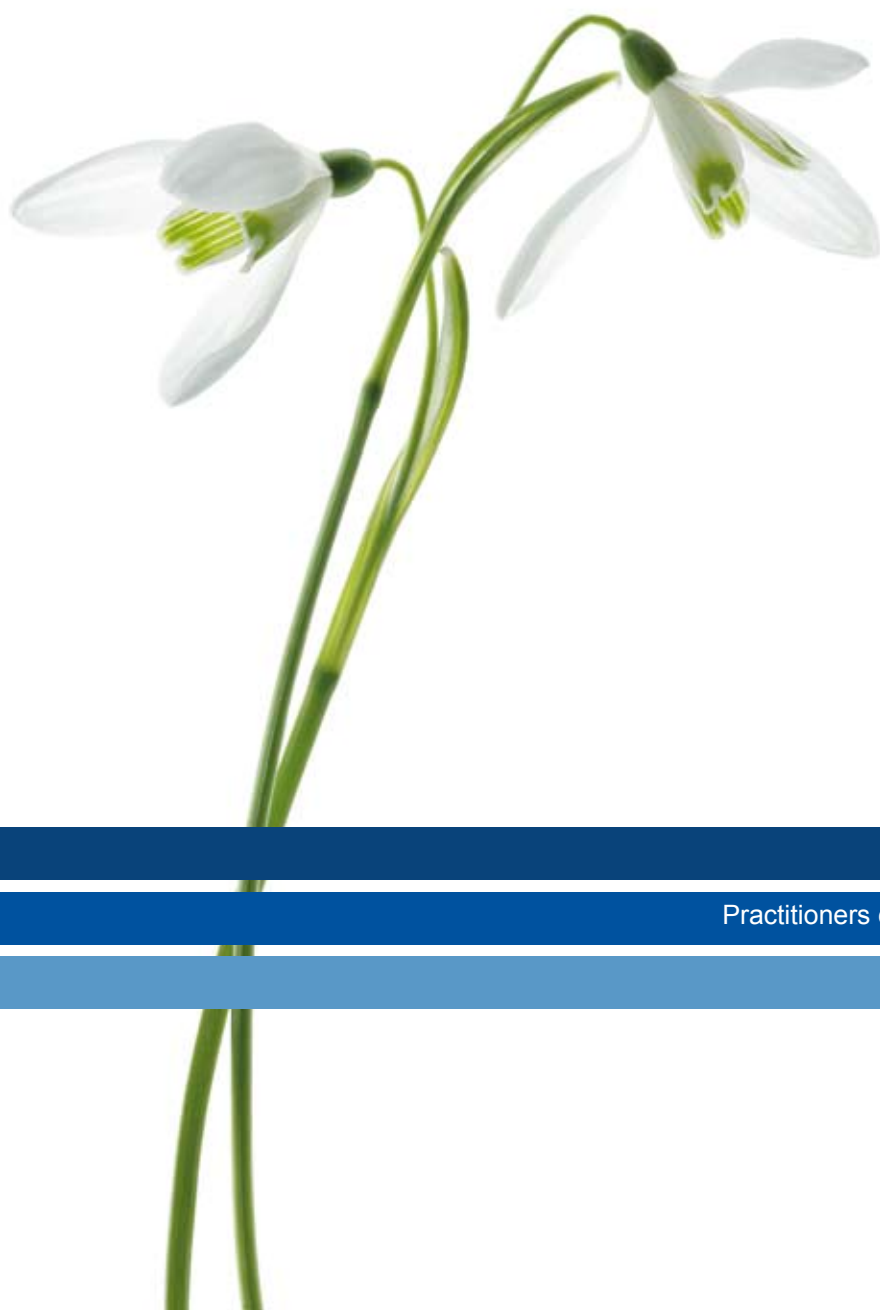




EBA CLEARING



## REPORT ON ACTIVITIES 2008

Practitioners creating European-wide payment infrastructures



# REPORT ON ACTIVITIES 2008

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## I. EBA CLEARING: The bank-owned provider of pan-European payment infrastructure

EBA CLEARING is the leading private sector provider of euro clearing and settlement services in Europe. The Company was established in 1998 by 52 banks and had 66 shareholders by March 2009. It owns and operates EURO1, a clearing and settlement system for individual financial and commercial payments, and STEP1, a single payment system for small and medium-sized banks, as well as STEP2, the first and so far only pan-European Automated Clearing House (PE-ACH) for mass payments in euro. Nearly 300 banks across Europe are directly connected to the services offered by EBA CLEARING as participants or sub-participants.

EBA CLEARING entertains a close dialogue with its community of shareholders and users, which is supported by the Company's country-neutral governance structure and fostered through regular user meetings and briefings, both at European and country level. This customer-friendly approach has forged the Company's unique market responsiveness as a co-operative undertaking in a fast changing environment.

In co-operation with the Euro Banking Association, EBA CLEARING takes an important part in the banking industry's efforts to create, maintain and evolve an integrated pan-European payments environment meeting the needs of the banks and their customers in the Single Euro Payments Area (SEPA) and beyond.



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## Overview 2008

The payments industry and its underlying infrastructure proved to be a beacon of stability in the unprecedented turmoil that shook the financial industry in the second half of 2008. EBA CLEARING maintained a steady course throughout this turbulent period and continued to evolve its existing and new services in line with the emerging needs of its users in SEPA.

EBA CLEARING's single payment infrastructure EURO1/STEP1 provided a robust and resilient service. Volumes continued to grow and values were noticeably higher reflecting confidence in the finality and certainty of payments ensured by the unique legal structure underpinning the system.

Throughout this period of increased alertness, EBA CLEARING remained on track with regard to implementing further enhancements on the EURO1/STEP1 platform. At the end of 2008, EURO1/STEP1 featured an improved output capacity increased by 40 percent. Two additional liquidity windows were added, which brought up volume distribution by over 50 percent. The migration to TARGET2 and the introduction of direct debiting for the pay-in phase of the settlement process significantly accelerated the end-of-day settlement process. The minimum and maximum credit caps in STEP1 were raised to prepare the EURO1/STEP1 platform for the absorption of additional domestic volumes, which is already well in progress.

In close co-operation with its shareholders and users, EBA CLEARING put in place the required platform to meet the evolving needs of its users with regard to SEPA payments. The STEP2 SEPA Credit Transfer (SCT) Service was launched on 28<sup>th</sup> January 2008 and delivered reach to more than 90 percent of all SCT Scheme-adhering banks from the start. The service was progressively enhanced throughout its first year of operation. In a step-by-step approach, EBA CLEARING introduced a second, intra-day processing and settlement cycle to the service, thereafter migrated its settlement from EURO1/STEP1 to TARGET2 in order to further broaden SCT reach and implemented an optional night-time settlement cycle, which enables banks to present their customers with an updated account balance in the early morning.

In preparation of the launch of its SEPA Direct Debit Services in November 2009, EBA CLEARING fine-tuned its PE-ACH platform STEP2 in order to meet the requirements of the latest versions of the SEPA Core and Business-to-Business Direct Debit Scheme Rulebooks and prepare the ground for the banks' joining process throughout 2009.

## II. EURO1: An efficient and liquidity-saving channel for clearing and settling single euro payments

### The EURO1 Service

EURO1 is a real-time payments processing system for single financial and commercial payments. EURO1 provides finality for each processed payment; settlement takes place at the ECB. EURO1 went live in January 1999 as a single pan-European high-value payment system for the euro. In March 2009, EURO1 processed on average 206,884 payments per day for a value of EUR 278 billion.

EURO1 is open to banks with a registered address or branch in the European Union with own funds of at least EUR 1.25 billion, a short-term credit rating A2 P2 equivalent and a head office in an OECD or an EU country. By the end of Q1 2009, the system counted 66 clearing banks and 62 sub-participants.

The EURO1 platform is based on a messaging and IT infrastructure provided by SWIFT. EURO1 provides low cost processing services for single payments. In addition, its processing mode provides banks with important liquidity savings. The Single Obligation Structure, the legal backbone of the EURO1 real-time net clearing and settlement arrangements, has been validated for 32 jurisdictions and all other countries where headquarters of EURO1 Clearing Banks are located. EURO1 is fully compliant with the Lamfalussy standards and with the 10 Core Principles for Systemically Important Payment Systems (SIPS), as certified by the European Central Bank (ECB).

EURO1 is the only private sector clearing and settlement system for individual financial and commercial euro payments at the pan-European level. The system is the leading processing infrastructure in this segment of the European payments market.



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In the financial crisis of 2008, EURO1 confirmed its strong market position and stability as a Systemically Important Payment System for clearing and settling single euro payments in Europe. Based on its sound legal basis as well as on its resilient and efficient processes, the platform provided a reliable and robust service throughout the financial turmoil. Banks continued to take full advantage of the service and its liquidity-saving benefits, which was reflected in the stable usage patterns and volume levels the system registered in the second half of 2008.

While EBA CLEARING switched to the highest levels of monitoring and control during the financial turbulence, the Company remained on track with regard to ongoing developments. Throughout 2008, EBA CLEARING successfully continued its work on improving the attractiveness of the EURO1 Service for its user community. The Company put in place a number of enhancements geared at reducing the EURO1 processing and settlement time as well as improving the continuous recycling of the liquidity supporting the system. The central objective of these improvements was to assist the banks in further optimising their liquidity management in the area of single euro payments.

With a view to attracting additional traffic, particularly domestic volumes, to EURO1, EBA CLEARING expanded the output capacity of the service and worked on making payment processing even more efficient and faster. The Company also prepared the EURO1/STEP1 Directory, which was launched in April 2009, in order to further expand the reach of the EURO1/STEP1 Services.

Other important developments included the migration of EURO1 settlement to TARGET2 and the implementation of another security layer around the EURO1 messaging infrastructure.

Ten years after the launch of the service in early 1999, EURO1 continues to successfully assert its position as the flagship of bank-owned payment infrastructure in Europe by constantly evolving in response to the changing needs of its users.



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## **Navigating through the troubled waters of the financial crisis**

Throughout the financial turbulence in the second half of 2008, EURO1 maintained its steady course as a robust and reliable service. During the crisis, EBA CLEARING introduced increased levels of monitoring and established a new procedure for a daily dialogue with the European Central Bank (ECB) as TARGET2 operator to ensure the immediate exchange between the ECB and EBA CLEARING of the latest information in terms of market disturbance or changes.

The increased monitoring by EBA CLEARING ensured that the Company was at all times in a position to manage the risks that could cause disturbance to its systems and enabled the Company to react quickly and decisively in such situations where banks' ownership changed to ensure compliance with the conditions for ongoing participation.

In this period, where efficient liquidity management became more crucial than ever, EURO1 confirmed its position as a well-trusted and liquidity-saving clearing and settlement system for banks across Europe. Overall, only two percent of the bilateral limits that banks grant each other in the system were adjusted by banks at the height of the crisis, which in turn reduced the available liquidity in the system by less than one percent. In the meantime, the vast majority of these limits have been set back to pre-crisis levels.

## **Continued growth in volumes and sub-participant numbers in 2008**

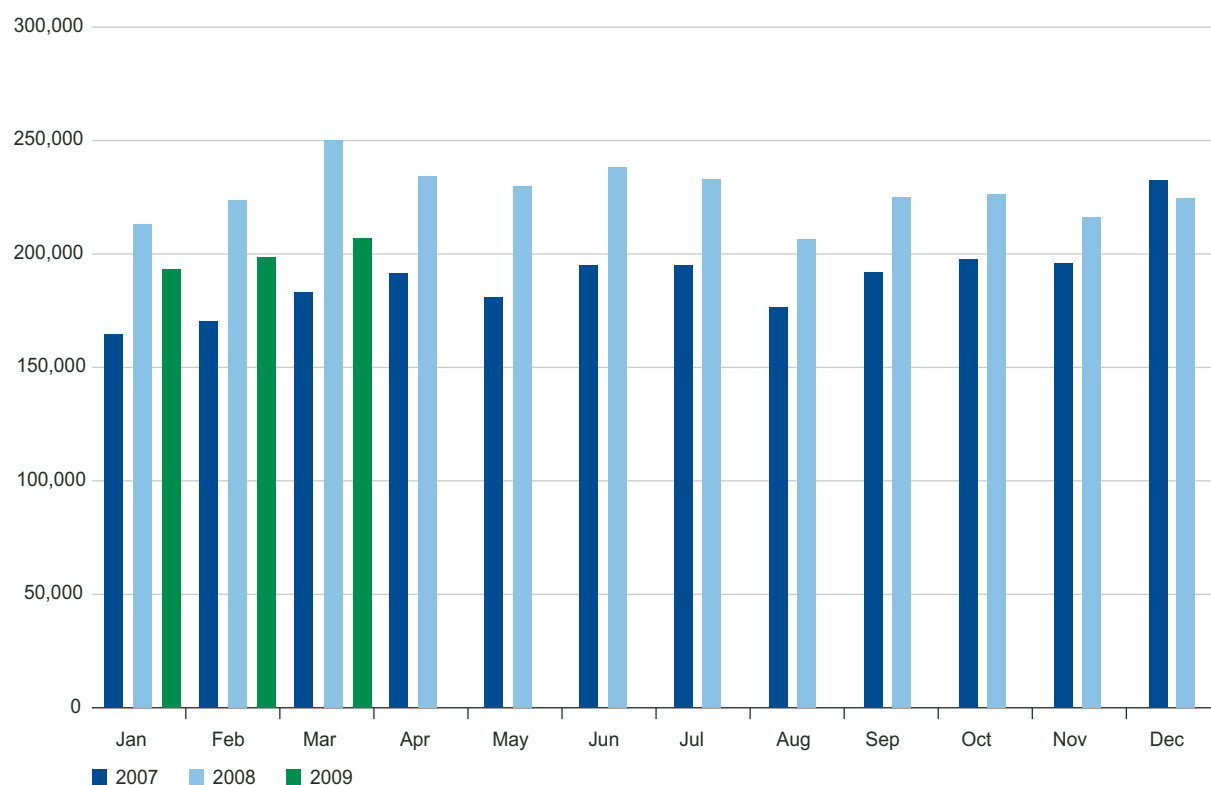
EURO1's position as a preferred clearing and settlement channel was also reflected in the continued volume increase the service experienced in the past year. After 15 percent of traffic growth in 2007, EURO1 witnessed an increase in daily average volume by close to 20 percent in 2008 moving from 189,062 to 226,103 payments processed per day. A new peak day for values processed in the EURO1/STEP1 system was achieved for 30<sup>th</sup> September at EUR 468 billion.

The ongoing credit crisis led to a general dip of single payment volumes processed across the financial market towards the beginning of 2009, from which they had slowly started to recover by March and April. Furthermore the move of settlement payments for the STEP2 SCT Service from EURO1 to TARGET2 created an additional artificial decline in the daily base volume figures. By March 2009, the daily average volume of payments for EURO1 had reached 206,884, which represented a 17-percent decline on March 2008, but a four-percent increase compared to February 2009.



While two participant banks withdrew from the EURO1 Service because of mergers, leaving the number of clearing banks at 68, the number of sub-participants stood at 63 at the end of 2008, which represented an increase by six banks. 12 pre-fund participants left the service in December 2008 because they had only been in the system for the settlement of their payments processed by the STEP2 SEPA Credit Transfer Service. This brought the number of EURO1 Pre-fund Participants back to 11. Following further major mergers, participant numbers reduced to 66 by March 2009 with 63 sub-participants being connected to EURO1.

### EURO1: average daily volume of payments processed



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## **Migrating settlement processes to TARGET2**

EURO1 successfully migrated to TARGET2 on 19<sup>th</sup> May 2008. The settlement, pre-funding and collateral arrangements continued to operate seamlessly in the new environment. The migration of the EURO1 settlement processes to TARGET2 completed the interim period during which EURO1 had continued to settle in TARGET with some banks operating under TARGET and others operating under TARGET2.

The EURO1/STEP1 platform also witnessed a number of changes concerning the settlement of STEP2 obligations. The new STEP2 SEPA Credit Transfer (SCT) Service started its operations with overnight processing and a morning settlement cycle in EURO1, which was followed by the introduction of an intra-day processing and settlement cycle in May. Both SCT cycles migrated to TARGET2 in December 2008, leading to a three-percent decrease in the overall EURO1 volumes in comparison to December 2007.

In order to fully comply with the Harmonised Terms and Conditions for TARGET2, EBA CLEARING has started to plan the move of the EURO1 settlement process, liquidity bridge and collateral arrangements from the TARGET2 Payments Module to an Ancillary System Interface model. This migration process will have to be completed by June 2010 and is being taken forward in close co-operation with the EURO1 user community.

## **Speeding up EURO1 processing and settlement**

Through the migration to TARGET2, EURO1 Banks became able to use the direct debit option for the pay-in phase of the EURO1 settlement process, which had not been available under TARGET. So far, more than half of the participants have adopted this methodology, which has shortened the EURO1 settlement process by over 10 minutes on average.

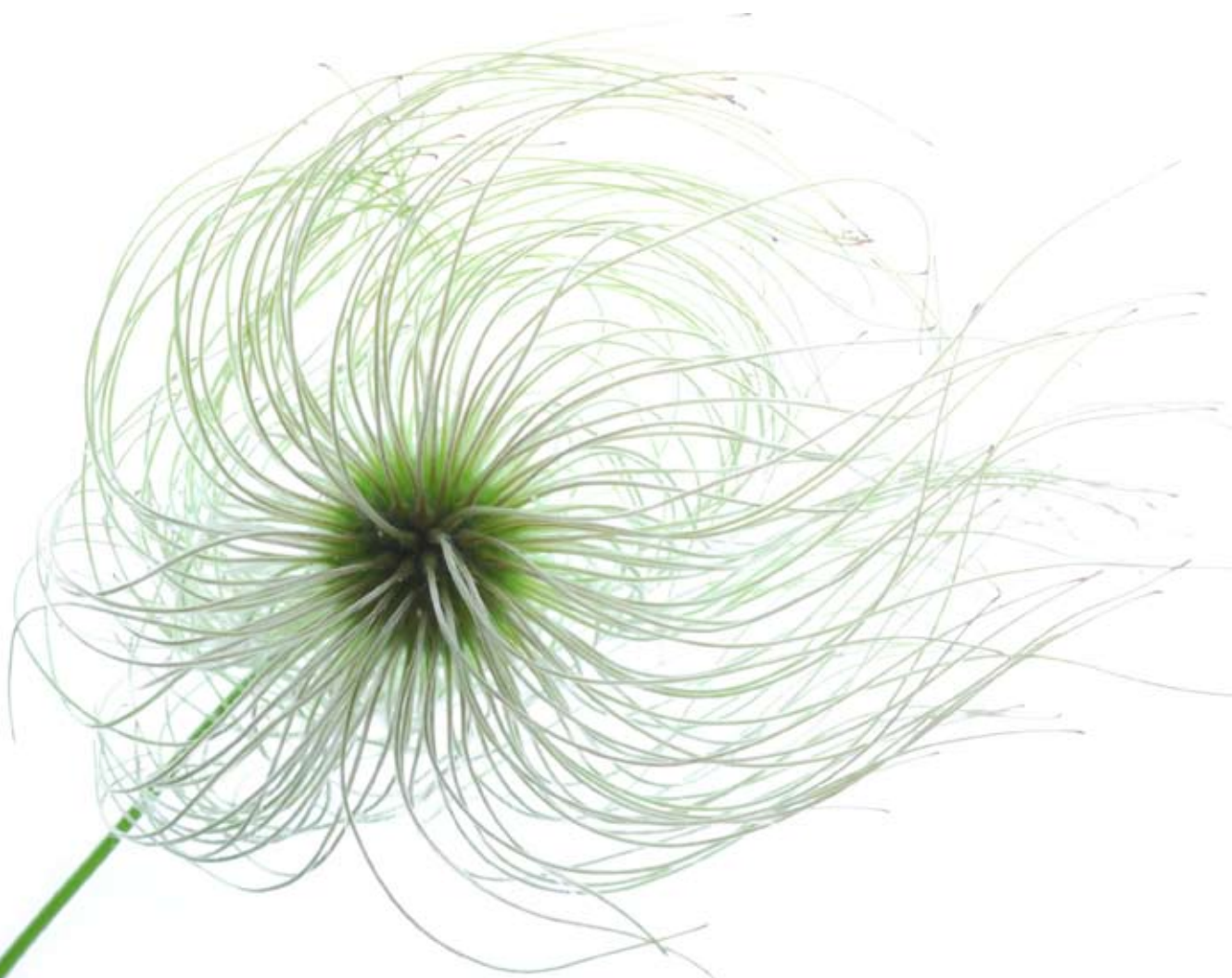
EBA CLEARING and SWIFT also worked on further improving the EURO1 processing capacity and speed. In December 2008, EBA CLEARING implemented a new EURO1 release, which increased the output capacity of EURO1 by 40 percent to 28 messages per second or 101,000 payments per hour. The effect has been that processed payment messages are distributed faster by SWIFTNet FIN to the receiving bank.

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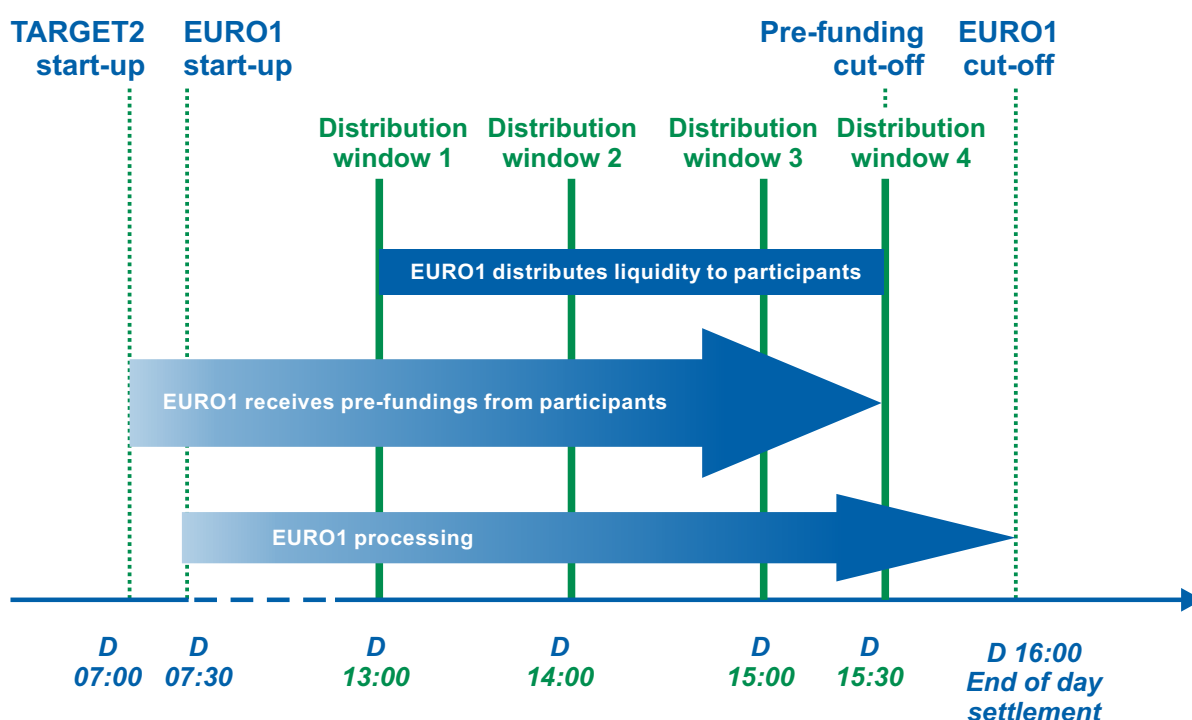
## Preparing EURO1 for absorbing further traffic

By increasing the EURO1 output capacity and speed, EBA CLEARING prepared the platform for attracting further volumes, particularly from domestic payment environments. A crucial breakthrough was achieved in Italy on 15<sup>th</sup> December 2008 when the Italian Bankers Association (ABI) issued formal codes to be included in payment orders that are forwarded locally. These codes have made it possible for domestic Italian single payment traffic to be fully submitted to domestic conditions when routed through EURO1.

In order to further improve the position of the EURO1/STEP1 platform as a channel of choice for priority payments, EBA CLEARING implemented a new functionality in June 2008 that enables banks to identify such payments in on-hold queues and to selectively receive confirmation that these payments have been duly processed.



## Pre-funding and liquidity distribution cycles



## Optimising the banks' liquidity usage in EURO1

EBA CLEARING also continued to work on enhancing the liquidity-saving features of the EURO1 Service. A major step towards further reducing the liquidity bound in the system was taken in July 2008: the Company introduced two additional distribution windows at 13:00 and 15:30 CET to the liquidity bridge. The implementation of these additional windows has led to smoother processing with fewer queues for large users of the service. The overall liquidity distributed by the system has increased by more than 50 percent. Today, about one third of the total daily liquidity pay-out takes place through the 13:00 window and a quarter of the total daily liquidity pay-out is distributed at 15:30.

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In March 2009, EBA CLEARING enhanced the algorithm for the calculation of the liquidity available for distribution. The new arrangement ensures that those banks that have not established direct debit limits with EBA CLEARING are not included in the calculation. This has brought up the average percentage of pre-funded liquidity that is redistributed to 88 percent. The average volume of payments on-hold compared to last year has fallen by 17% and the average value of payments on-hold has dropped by 26%.

### **Expanding the reach of EURO1/STEP1**

The development of a Directory for the EURO1/STEP1 Services was another major project that EBA CLEARING took forward in 2008/2009. The Directory puts banks in a position to use the EURO1/STEP1 Services for routing payments to a wider range of banks and thus further benefit from the favourable transaction pricing structure and the liquidity advantages of EURO1/STEP1. The Directory increases the coverage of the services by enabling banks to identify the EURO1/STEP1 Participants through which any third party banks can be reached.

Participants, and sub-participants, were able to submit information about their client banks to the Directory starting from October 2008. Sample files were issued in December and February to enable banks to test how to download and apply the data within their back offices in order to use it as support in payment routing decisions.

The first monthly release of the EURO1/STEP1 Directory was published on 6<sup>th</sup> April 2009 and increased the reach of the services by over 50 percent. Already over 2,100 reachable (client) banks have been listed.

### **Other enhancements**

In the course of 2008, EBA CLEARING also implemented a series of additional technical enhancements on the EURO1/STEP1 platform geared at further improving processing and security functions around the system. One key example was the introduction of double authentication in the FIN-Copy services of EURO1/STEP1, which added an additional layer of security at the messaging level between the banks and the EURO1/STEP1 system.

For 2009, the number of new releases and of changes to be managed at the participant level will be kept to a minimum. In October, EBA CLEARING will introduce the message type for cover messages, MT202(COV), on the EURO1/STEP1 platform.

### III. STEP1: A low cost offering for clearing and settling single euro payments in SEPA

#### The STEP1 Service

STEP1 is a payment service for individual commercial payments, complementary to EURO1. The system uses the EURO1 platform and enables STEP1 Banks to exchange payments with each other as well as with the entire community of EURO1 Banks. STEP1 Banks are not involved in the risk and loss sharing arrangements of EURO1.

STEP1 benefits from the sound technical and legal infrastructure of EURO1 and complies with the latest industry standards and business practices. The limited technical arrangements required for connecting to STEP1 and the operational simplicity of the system allow for significant cost savings by the participating banks.

In March 2009, 108 participants and 53 sub-participants exchanged an average daily volume of 22,983 payments for an average daily value of EUR 1 billion. Through the implementation of STEP1 in November 2000, EBA CLEARING broadened access to the EURO1 processing platform. Admission to STEP1 neither requires a minimum credit rating nor a minimum of own funds. A STEP1 Participant settles with a EURO1 Bank of its choice, which in turn provides the STEP1 Participant with the liquidity it requires in the system.







In 2008, STEP1 continued to provide a reliable clearing and settlement to its community of smaller and middle-sized banks across Europe.

EBA CLEARING took a major step towards opening the service to the processing of additional traffic by increasing the minimum and maximum credit caps a STEP1 Bank can have in the system. STEP1 Participants also benefited from the enhancements EBA CLEARING implemented on the EURO1/STEP1 platform, such as the increase in the system's processing speed and the new features facilitating the processing of priority payments. The introduction of the EURO1/STEP1 Directory will enable STEP1 Banks to channel more payments through the cost-effective single payment infrastructure of EBA CLEARING.

### **Stable volume and participation levels**

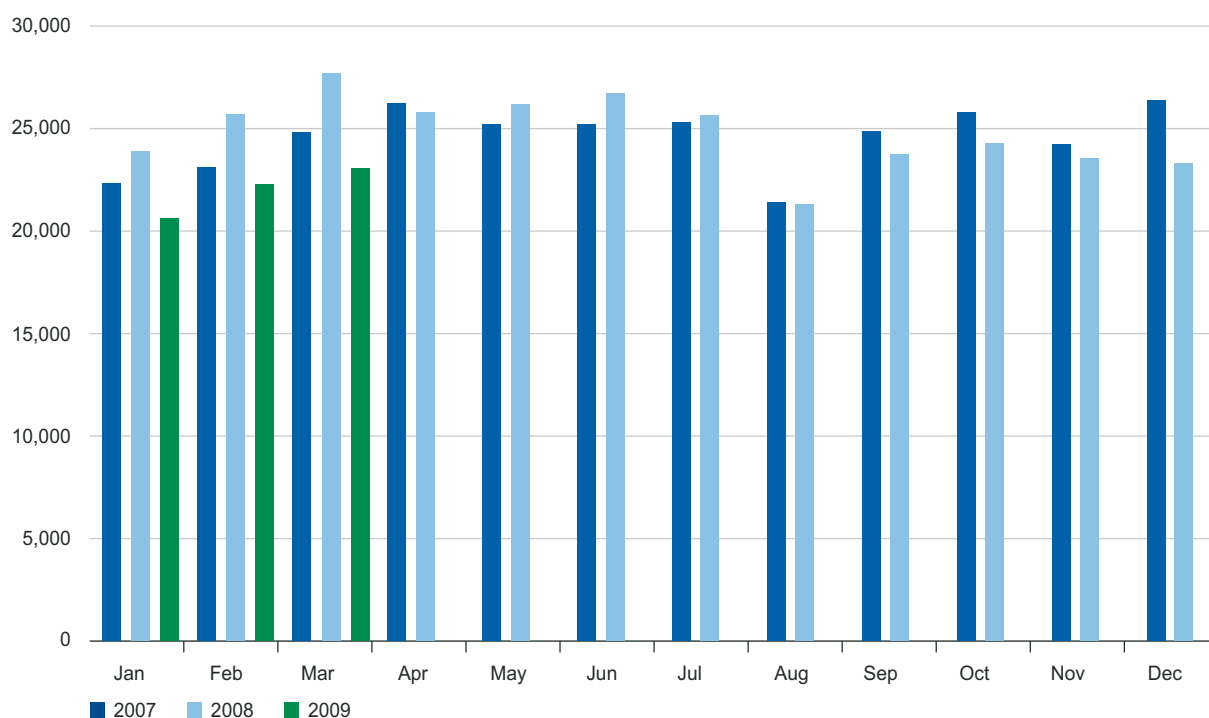
STEP1 daily average volumes grew very slightly in 2008 to 24,803 transactions; in 2007, the service had processed on average 24,570 payments per day. From December 2008, the migration of the settlement of the STEP2 SEPA Credit Transfer Service to TARGET2 resulted in a reduction in STEP1 traffic of about 600 payments per day on average. STEP1 volume figures were also affected by the general plunge and subsequent slow upward trend taken by single payment volumes in early 2009. Average daily traffic reached 22,983 in March 2009, which represented a decrease of 17 percent on STEP1's all-time record in March 2008, but an increase of three percent compared to February 2009.

The number of STEP1 Participants decreased to 108 by the end of the first quarter 2009, principally due to mergers and consolidation, while the number of STEP1 Sub-Participants remained stable at 53.





## STEP1: average daily volume of payments processed



### Opening STEP1 to additional volumes

EBA CLEARING increased the minimum credit cap for STEP1 Banks from EUR 1 million to EUR 2 million and the maximum credit cap from EUR 25 million to EUR 50 million in 2008. Through these higher credit caps, STEP1 Participants were enabled to channel more payments through the service, such as additional domestic traffic.

EBA CLEARING will continue to study possible enhancements it could bring to the STEP1 Service in order to further improve its service offering for smaller and medium-sized banks with regard to processing single payments at a cross-border as well as at a domestic level.

## IV. STEP2: The banking industry's infrastructure of choice for processing SEPA payments

### The STEP2 Service

STEP2 is the pan-European Automated Clearing House (PE-ACH) of the European banking industry for mass payments in euro. The platform has been in place since 2003 and is operated by SIA-SSB.

STEP2 currently counts three live services: the STEP2 Service for payments governed by the Convention on Credit Transfers in euro (XCT), the STEP2 Italian Credit Transfer (ICT) Service and the STEP2 SEPA Credit Transfer (SCT) Service, which is the first of EBA CLEARING's SEPA Services. Two SEPA Direct Debit Services will be launched in STEP2 in November 2009.

STEP2's technical platform enjoys the highest level of resilience and was the first to provide XML-based messaging. STEP2 is the only retail payment system in Europe to have met all six Core Principles for Prominently Important Retail Payment Systems (PIRPS) when assessed by the European Central Bank (ECB).

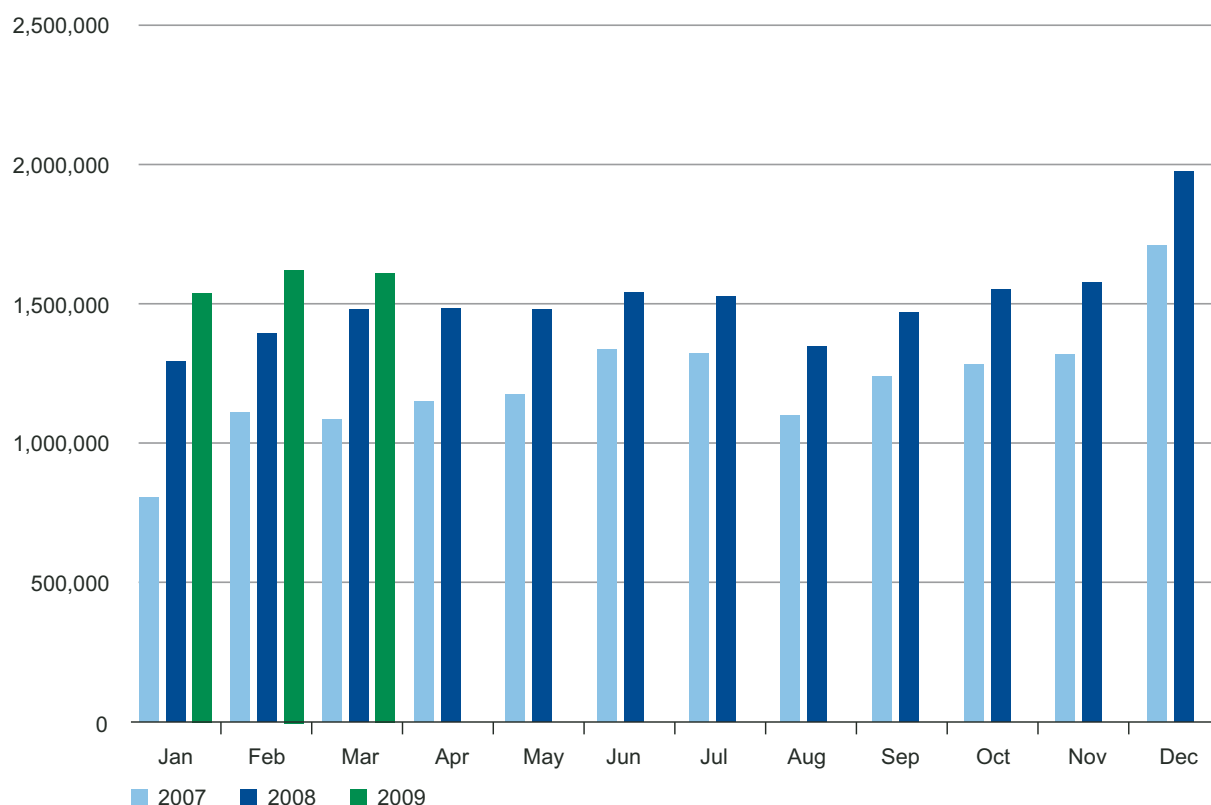
The processing arrangements and business practices of the different STEP2 Services support the banks in meeting the execution time requirements of the Payment Services Directive (PSD). Banks can therefore use any of the STEP2 Services as an integral part of their PSD-compliant end-to-end payment processes.

The STEP2 platform witnessed a major milestone in 2008 with the go-live of the first of EBA CLEARING's SEPA mass payments offerings, the STEP2 SCT Service. While EBA CLEARING drove the evolution of the new service through a series of key enhancements in the first year of SCT operations, the Company at the same time

prepared for the upgrade of the STEP2 direct debit system in 2009 in order to pave the way for the launch of two SEPA Direct Debit Services in November 2009. Last but not least, EBA CLEARING also continued to operate the STEP2 XCT and ICT Services in a stable and reliable manner.

Through the ongoing SCT ramp-up and the upcoming SDD launch, STEP2 is consolidating its position as the PE-ACH of the European payments industry. EBA CLEARING will continue to strengthen this position by enhancing the reach and the functionalities of its SEPA Services in order to attract the growing volumes that are being migrated to the new instruments.

#### Volume evolution in STEP2: average daily traffic sent via XCT, ICT and SCT



## 1. The STEP2 XCT Service

The STEP2 XCT Service processes payments governed by the Convention on Credit Transfers in euro, i.e. payments of up to EUR 50,000 carrying a BIC and IBAN and sent between banks in the European Economic Area (EEA).

STEP2 XCT provides full coverage for these Convention-compliant payments to banks in the EEA through direct and indirect participation (93 percent) as well as through entry point arrangements (7 percent).

In March 2009, the service was used by 105 direct participants and 1,701 indirect participants, processing on average 239,376 transactions per day with a value of EUR 976 million.

## Overview

In its fifth full year of operation, STEP2 XCT continued to provide to its stable participant base a reliable processing service with full EEA coverage for payments governed by the Convention on Credit Transfers in euro.

Migration from XCT to the SEPA-compliant SCT Service began in January with nearly a quarter of the daily volume moving from XCT to SCT.

Direct participation remained stable during 2008 and indirect participation continued to increase reaching 1,700 banks as banks that joined the STEP2 SCT Service to become SEPA-compliant were able to make use of standardised interfaces and join XCT at the same time.





## **2. The STEP2 Italian Credit Transfer (ICT) Service**

STEP2 continued to process half the Italian domestic traffic on the Italian Credit Transfer Service.

The service was launched in November 2006, to facilitate the progressive migration of the ICT Banks' domestic payment flows to SEPA and to allow them to settle in EURO1.

In March 2009, seven direct participants and 59 indirect participants exchanged a daily average of more than 1 million credit transfers over the ICT Service.

### **Overview**

The STEP2 ICT Service continued to provide a high-quality processing service for intra-Italian credit transfers to its user community in 2008. Direct participant as well as indirect participant numbers remained consistent throughout the whole year.

The daily average volume processed by STEP2 ICT in 2008 stood at 1,049,809 transactions. December was an exceptional month with a higher than usual average number of payments processed (more than 1.4 million credit transfers) and a peak day of 2,463,468 transactions on 9<sup>th</sup> December 2008. In 2009, this positive trend was further confirmed by a 12 percent year-on-year rise of volumes during the first quarter.

The flexible architecture of the STEP2 ICT Service, which allows for the processing of Italian domestic scheme payments on a SEPA-ready platform, will enable its user banks to progressively migrate these growing domestic volumes to the STEP2 SCT Service in a seamless and efficient way.

### 3. The STEP2 SEPA Credit Transfer (SCT) Service

The STEP2 SEPA Credit Transfer (SCT) Service went live on 28<sup>th</sup> January 2008, at the start of SEPA.

In March 2009, 114 Direct Participants and 4,017 Indirect Participants, representing 35 SEPA country codes, were connected to the service. At that stage of the ongoing ramp-up phase, participants were exchanging on average 288,808 transactions per day with a value of EUR 1.64 billion.

From its launch STEP2 provided 90 percent of reach across all of SEPA with a few remaining banks joining in July 2008. By March 2009, reachability stood at over 98 percent among banks having signed the EPC SCT Adherence Agreement.

Through its unique coverage of nearly all banks in the SEPA countries and territories, EBA CLEARING's STEP2 platform is a true pan-European ACH (PE-ACH). The SCT Service processes euro credit transfers that comply with the SEPA Credit Transfer Scheme Rulebook and Implementation Guidelines of the European Payments Council (EPC). In line with the EPC's PE-ACH/CSM Framework, the service is geared at providing banks with full reachability across SEPA and is based on a country-neutral governance structure.








The STEP2 SCT Service experienced virtually no teething problems in the months following its smooth and timely launch on 28<sup>th</sup> January 2008 as the only PE-ACH Service for the new SEPA Credit Transfer instrument. Following the positive experience with the launch and operations of the STEP2 SCT Service, EBA CLEARING put in place substantial enhancements on the new service throughout 2008. These improvements were implemented in a well-structured step-by-step approach orchestrated in close co-operation with the users of the service.

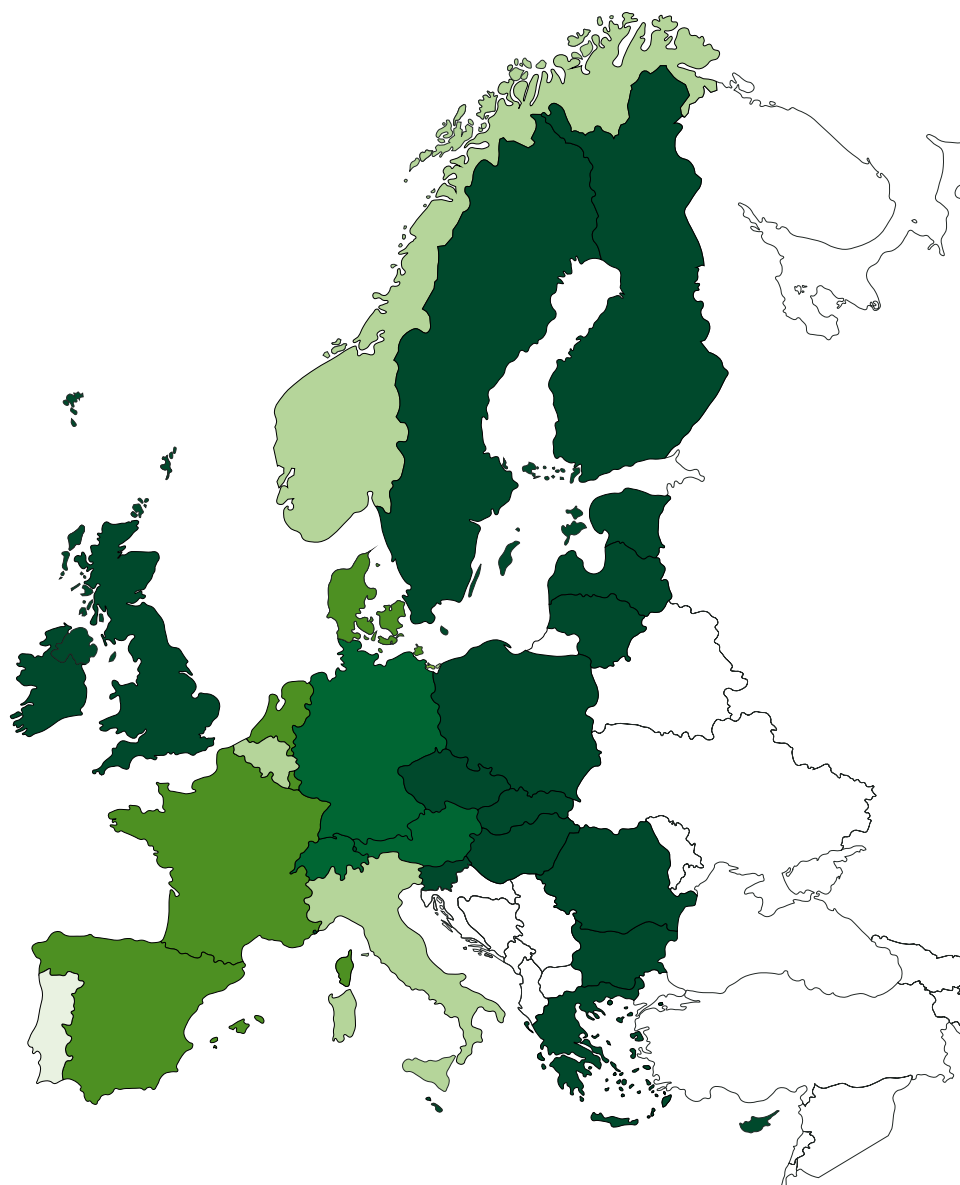
### Reachability of the STEP2 SCT Service in SEPA

#### STEP2 SCT:

Coverage of banks in SEPA  
having signed the EPC  
SCT Adherence Agreement

	100%	19 countries
	> 99%	3 countries
	> 95%	5 countries
	> 90%	3 countries
	> 83%	1 country

Total coverage: > 98%



## Steady volume build-up

The STEP2 SCT Service moved from processing 65,000 to 150,000 average daily payments within the first few weeks. Volumes picked up some steam again after the summer months, when many banks had completed internal preparations for feeding additional payment flows into the new SEPA infrastructure. The service's peak day of 2008 was 2nd December with 390,882 transactions processed. December was also the month in which the volumes of payments processed in the STEP2 SCT Service exceeded those of the STEP2 XCT Service for the first time. The slow but steady build-up of volumes has continued since the turn of the year: by April 2009, the STEP2 SCT Service was processing more than 300,000 transactions each day.

During 2008, the rate of reject and return messages dropped steadily, as the banks' practical experience with the SCT instrument increased. It reached an average of 0.58 percent in the second full month of STEP2 SCT operation and further decreased to 0.35 percent by the end of the year.

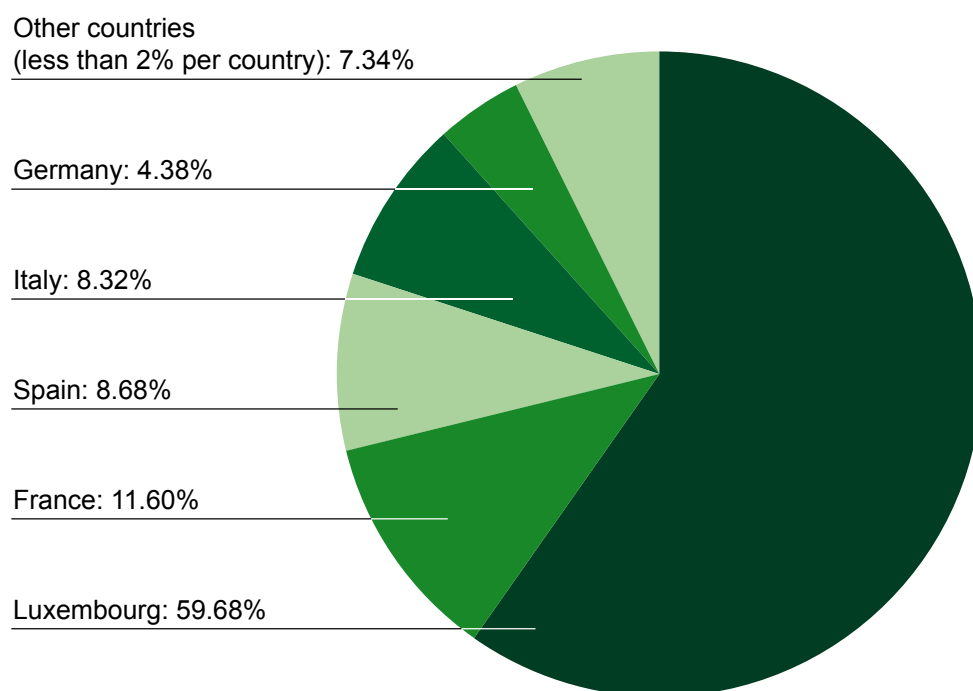
## Attracting domestic credit transfers

Banks began to use STEP2 SCT for processing domestic transactions shortly after the start of the service. The Luxembourg community migrated their traffic to SCT within three months, and the Finnish community committed themselves to closing down their local infrastructure and to have STEP2 as a single channel for all their intra-European payments, whether domestic or cross-border. By the end of the first quarter of 2009, about a third of the SCT traffic sent from France, Italy and Spain via STEP2 was domestic.





## STEP2 SCT Domestic Traffic (March 2009)



## Introducing an intra-day processing and settlement cycle

EBA CLEARING implemented a first major SCT enhancement in May 2008 by introducing a second processing and settlement cycle to the service. This intra-day cycle enables banks to send SCT payments to STEP2 until 13:00 CET on D to be settled on the same day between 14:00 and 15:15 CET.

With the launch of this processing cycle, 10.4 percent of the payments were processed same day, representing 11.4 percent of the value. By the end of the year, the proportion of payments processed same day had grown to 16.8 percent and accounted for 17.6 percent of the value.

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## **Broadening access to the PE-ACH through settlement in TARGET2**

From the launch date until December 2008, EBA CLEARING processed and settled its STEP2 SEPA Credit Transfers in EURO1/STEP1 in a smooth and reliable manner.

However, in order to broaden its access to a larger community of financial institutions in SEPA, the Company decided to migrate the settlement of STEP2 SCT obligations from EURO1/STEP1 to TARGET2.

Settlement in TARGET2 provides for faster settlement cycles and will enable the SEPA Services to retain the “settlement before delivery” model for the existing processing and settlement cycles and for any future additional cycles EBA CLEARING may decide to introduce at the request of the SCT user community.

## **Introducing multilateral netting to optimise the banks' liquidity use**

In order to determine the net position of each STEP2 SCT Bank for settlement in TARGET2, EBA CLEARING put in place a Multilateral Netting Module (MNM) developed by SWIFT. The new application calculates each bank's net position based on the bilateral gross amounts established by STEP2 and then carries out the interaction process with the Ancillary System Interface of TARGET2. Through the implementation of the MNM, EBA CLEARING supports the SCT Banks in further optimising their liquidity use and provides them with the highly flexible and efficient settlement procedures and options in STEP2 that they require for operating in an integrated European payments environment.

## **Offering a night-time settlement cycle**

EBA CLEARING developed a night-time clearing and settlement cycle for the STEP2 SCT Service. This optional additional settlement cycle was rolled out to the SCT community on 12<sup>th</sup> December 2008. It positioned STEP2 as the only SCT Scheme-compliant Clearing and Settlement Mechanism (CSM) offering a night-time settlement cycle to its user base.

The night-time cycle settles at 1:30 in the morning in TARGET2 amongst participating institutions. It allows receiving banks to credit payments to the beneficiaries' accounts in the early hours of the morning, so that customers have the funds available before



the start of the business day. As the “settlement before delivery” principle provides finality of payments, there is no risk involved for banks in applying the funds to their customers’ accounts. Besides enabling banks to offer high service levels to their customers, the night-time settlement cycle also puts the banks in a position to optimally exploit their IT resources by using the night hours for processing both domestic and intra-European payments.

The implementation of this optional cycle has allowed for the Finnish banking community to progress their migration to STEP2 SCT throughout 2008, which will eventually lead to the closedown of their local infrastructure. The night-time settlement cycle is expected to become more attractive for banks across Europe once a larger number of their corporate and private customers have switched to SEPA standards for their payments.

## Conducting a benchmarking project

EBA CLEARING started a benchmarking project in October 2008 involving a testing exercise in early 2009 in order to assess the processing capacity of the platform for future planning. The tests confirmed that the STEP2 platform is presently able to process 10 million transactions per day with no modification to its current configuration. With an upgraded hardware configuration, it will be possible for the platform to process more than 50 million payments per day.

## Other enhancements

EBA CLEARING implemented a number of additional enhancements on the SCT Service in order to better meet user needs and fulfil compliance with the SCT Scheme Rulebook 3.2, which came into effect in February 2009. In December 2008, the Company introduced the automatic re-submission of payments into the next SCT cycle and the ability to enquire on archived SCT payments via the Interactive Workstation.

In 2009, a major focus will be placed on further marketing and enhancing the SCT Service with a view to accommodating the migration of further domestic payment flows to the STEP2 platform.

## 4. The STEP2 SEPA Direct Debit (SDD) Core and B2B Services

EBA CLEARING upgraded the direct debit system on its STEP2 platform in early 2009 to allow for the launch of two distinct services complying with the SEPA Core and Business-to-Business (B2B) Direct Debit Scheme Rulebooks, respectively. The aim is to provide the European banking industry with an SDD Core Service offering reach across all SEPA countries and with an SDD B2B Service connecting those banks that are committed to rolling out SDD B2B connectivity to their corporate customers. Both services will go live on 2<sup>nd</sup> November 2009 when the Payment Services Directive has provided the necessary uniform legal foundation for a pan-European direct debit offering. By March 2009, 62 financial institutions had signed up to the STEP2 Core SDD Service and 39 banks had registered for the STEP2 B2B SDD Service.

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## Overview

The direct debit system on EBA CLEARING's PE-ACH platform STEP2 was available throughout 2008 to STEP2 Direct Participants wishing to test a direct debit system compliant with version 2.3 of the SEPA Direct Debit Scheme Rulebook. Twelve banks took advantage of the opportunity to test this system, which had been delivered by EBA CLEARING in close co-operation with 59 pilot banks in 2007.

In 2008, EBA CLEARING continued to discuss and define the evolution of the Company's direct debit offering with the pilot banks. A set of specifications was agreed and development started in the course of the year in order to prepare the platform for the launch of two direct debit services.

The STEP2 SDD Core and B2B Services are geared at meeting the specific requirements of the European banking industry with regard to handling direct debits between businesses and consumers as well as with regard to processing collections involving businesses only. To this effect, the services feature different membership lists, parameters, timings, and validation processes. The STEP2 SDD Services are based on the same processing model and data set and will both settle in TARGET2. The delivery of settled direct debit collections is scheduled to be completed by 13:00 for the SDD Core Service and by 14:00 for the SDD B2B Service.

In early 2009, EBA CLEARING prepared the ground for the major testing and joining exercise paving the way for the launch of the two services on 2<sup>nd</sup> November 2009. The Company also delivered a Stand-Alone Direct Debit Testing Partner in order to support the banks in their testing activities: the tool enables the banks to individually test the full direct debit flow, including R-messages, in the STEP2 test environment. EBA CLEARING has scheduled six monthly testing windows from May to October in order to enable banks across SEPA to get ready for the go-live of the STEP2 SDD Services.

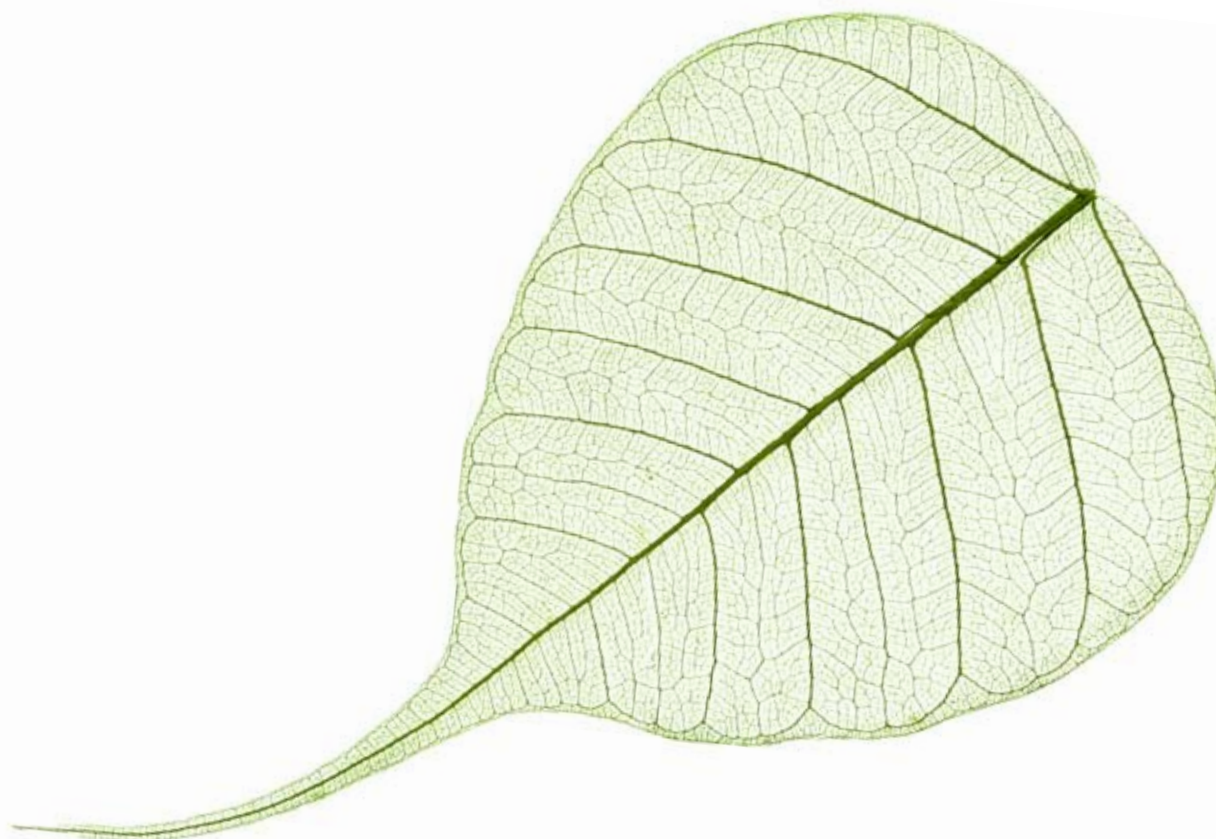


## V. System performance and enhancements

The overall performance of the EBA CLEARING systems, operated by EBA CLEARING in co-operation with SWIFT and SIA-SSB, continued to be excellent: the availability of EURO1, STEP1 and STEP2 stood at 100 percent throughout the full year of 2008 and the first quarter of 2009. Daily end-of-day settlement was completed in a timely manner at 16:24 CET on average. Neither the continued increase in volume nor the launch of the STEP2 SEPA Credit Transfer Service had any palpable impact on the speed of payment processing or the interaction between the different operational platforms. The adjustment of the processing times within the SCT Service and the additional arrangements for pre-fund participants were completed smoothly and caused no disruption within the EURO1/STEP1 processing.

Following another round of testing, the second migration phase of TARGET2 went live on 18<sup>th</sup> February 2008 with EBA CLEARING's Cristal BAS2 platform, provided by DIAMIS, migrating accordingly. Afterwards, the BAS2 platform operated flexibly and reliably in TARGET2 on a day-to-day basis.

The Company continues to be engaged in constant dialogue with the industry in order to remain at the forefront of the latest developments in the area of resilience and business continuity.





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## Enhanced crisis management and resiliency

The EBA CLEARING resilience levels are tested, revised and enhanced on a regular basis. Furthermore, in order to keep pace with new threats that the industry is facing, EBA CLEARING's Crisis Management procedures were enhanced in 2008. The procedures now include measures to monitor and handle potential pandemic situations by widening the remote access at multiple European locations, regardless of physical venue. All measures are imbedded within the relevant procedures and tested on a scheduled basis.

## Contingency procedures

In the course of 2008, the regular testing of end-of-day settlement contingency procedures of all EURO1 banks continued successfully. These contingency procedures are an integral part of EBA CLEARING's test environment and have included, since 19<sup>th</sup> May 2008, the involvement of TARGET2. In co-operation with EBA CLEARING's Audit & Finance Committee, a new set of tests following the same standard has been prepared for 2009. Machine and staff rotation were conducted throughout the year in order to keep the staff familiar with both operation centres.

In addition, the Company continued to organise bi-monthly fallback settlement tests that participants could use on a voluntary basis.

EBA CLEARING also successfully participated in the ECB-led initiative to complete an infrastructure self-assessment to demonstrate compliance with four criteria published by the Eurosystem in the fifth Progress Report on SEPA.

## STEP2 operations enhancement plan

In order to increase the robustness, and anticipating the ever growing traffic patterns of the different STEP2 Services, especially in the domestic area, an operational enhancement plan was launched in mid-2008 in close co-operation with SIA-SSB. Actions included enhancements in the area of system and application monitoring, review of architectural components, a staff exchange programme between EBA CLEARING and SIA-SSB and a revision of the STEP2 disaster recovery infrastructure.

The plan was successfully completed in March 2009 and EBA CLEARING is confident that these developments have contributed to a more stable and flexible STEP2 environment.

## VI. Customer support

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As in the previous years, EBA CLEARING continued to foster strong ties with its shareholder and user community throughout 2008 and early 2009. A great deal of effort was put into further improving the Company's response to the needs of its users both in its day-to-day interaction with the banks and at a strategic level.

### ICU inquiries reach new heights

In its fourth year, the Investigations and Customer Support Unit (ICU) successfully continued its mission to offer the users of the EBA CLEARING services a single point of contact and extensive support for all services operated by the Company. During 2008, ICU staff received and followed up on over 4,000 enquiries, an increase of 42 percent over 2007. The rise in the number of queries can be attributed mainly to the implementation of the SCT Service in January, the introduction of multiple settlement cycles in May and the live deployment of the Multilateral Netting Module (MNM) in December 2008.

The ICU service broadened and enhanced its customer support offering on EBA CLEARING's website. The customer support section on the website now provides in-depth descriptions of the responsibilities to be fulfilled by those bank representatives who hold key contact roles with regard to their bank's participation in EBA CLEARING services. The improved online ICU Inquiry Web Form supports users in providing ICU with a complete picture of their request in a convenient, secured and speedy manner, which in turn enables ICU to accelerate the answering process. In December 2008, ICU put in place a streamlined process enabling banks to submit their contact list change requests via a dedicated online form.







## Informational meetings, road shows and conferences

One week before the start of SEPA in January 2008, EBA CLEARING held a STEP2 SCT Inauguration meeting to inform participants about the details of the new SEPA Service. Another SEPA information session was held on 11<sup>th</sup> September 2008, where topics included the ramp-up and enhancement of the SCT Service as well as an update on the M-PEDD project.

In view of Slovakia taking up the euro currency as of January 2009, the Company organised a dedicated road show in Bratislava in November 2008 in co-operation with the Slovak Banking Association as well as the EBA and presented valuable insights into all its services. A special focus was placed on explaining the different participation modes available to Slovakian banks and on introducing EBA CLEARING's SEPA offerings.

In early 2009, EBA CLEARING started a series of presentations to national communities across Europe geared at refreshing and updating user knowledge about the EURO1 risk mitigation and liquidity management tools.

As in the previous years, EBA CLEARING also participated in a number of industry events, including EBAday, Italy's SPIN event, the Frankfurt Euro Finance Week and Sibos, in order to provide the banking industry at large with updates on ongoing Company activities and projects.

## VII. Outlook 2009

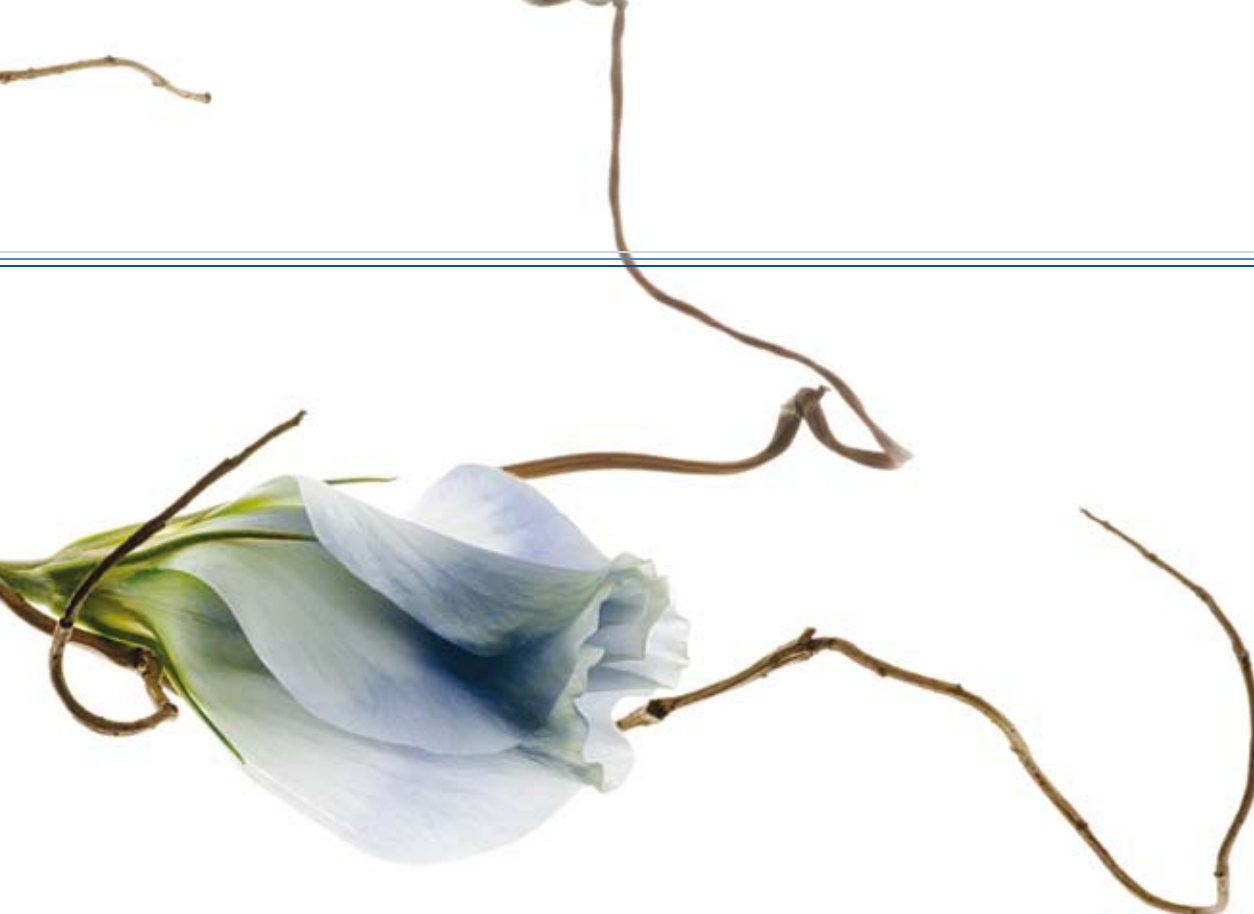
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In 2009, EBA CLEARING has stepped up its preparations for going live with the STEP2 SEPA Direct Debit Services on 2<sup>nd</sup> November 2009, the date on which the SEPA Direct Debit Schemes will be launched. In May, the joining process for both services began and the first of six monthly testing windows was completed successfully and very smoothly. The Company is orchestrating a major organisational exercise in order to get more than 60 participants and their indirect participants ready to start exchanging SEPA Direct Debits via STEP2.

Besides focussing on the launch of the STEP2 SDD Core and B2B Services, EBA CLEARING is developing additional functionalities and supporting services around its SEPA offerings with a view to better serving the needs of its users in the Single Euro Payments Area.

In order to optimally support the banks in the emerging pan-European direct debit environment and to facilitate the migration of national direct debits to the new SEPA instrument, the Company will provide a calculation service for multilateral and bilateral interchange fees and is working with its user banks on delivering a solution for managing electronic mandates. Throughout 2009 and 2010, EBA CLEARING will also continue its efforts to build up reach for its new SEPA Direct Debit Services, particularly for the SDD Core Service.

In the area of single payment processing, EBA CLEARING will further pursue its objective of positioning EURO1/STEP1 as the infrastructure of choice for exchanging



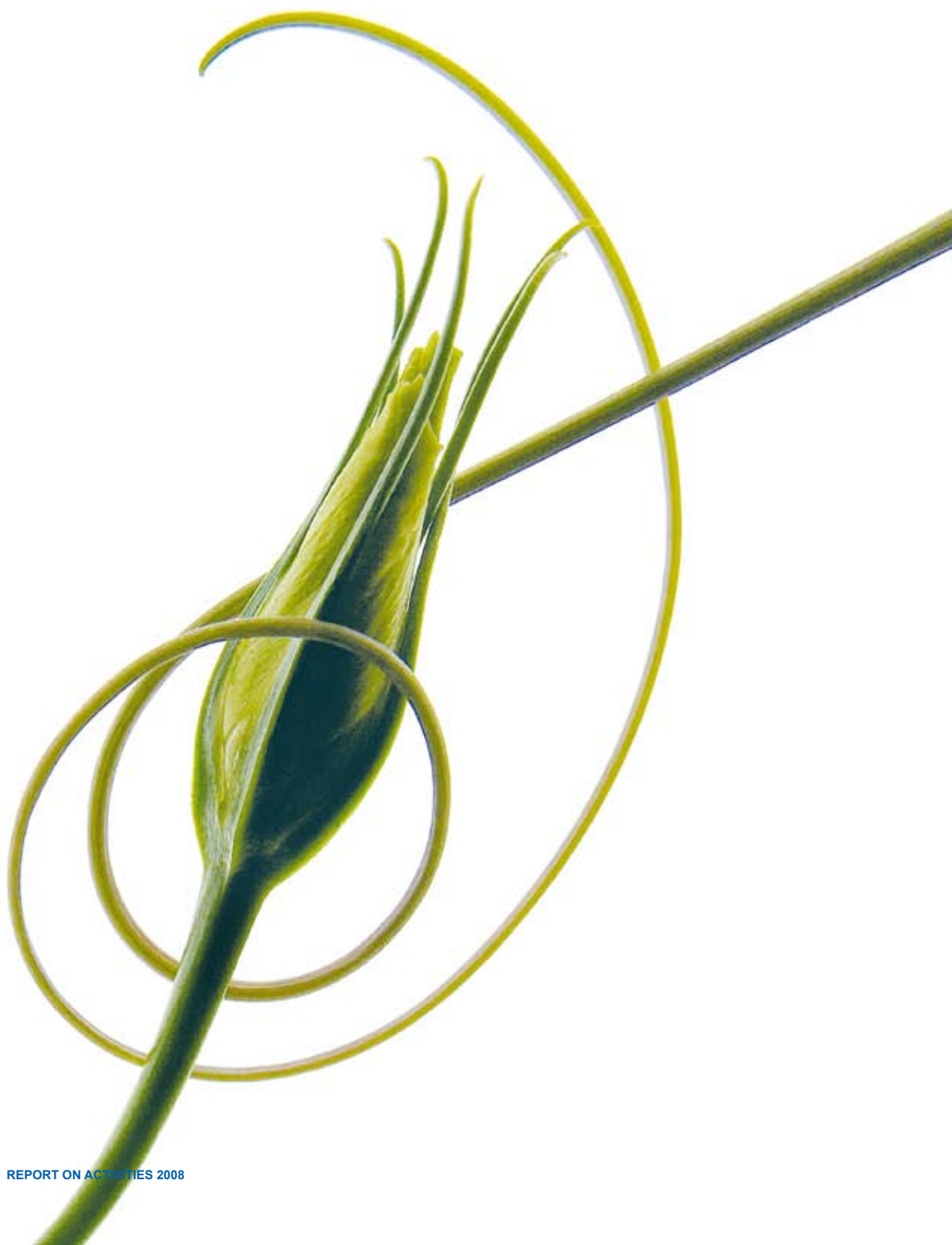
both domestic and cross-border transactions in euro. In co-operation with its banks, the Company is currently planning the migration of the EURO1 settlement process in TARGET2 from the Payments Module to the Ancillary System Interface. The migration is scheduled to be completed by mid-2010. This migration will lead to a faster EURO1 settlement process and thereby contribute to making the processing chain even more efficient and liquidity-saving.

Throughout and beyond 2009, EBA CLEARING will continue to develop and implement new functionalities in close co-operation with its shareholder and user banks. In line with its balanced and country-neutral governance structure, EBA CLEARING will give due consideration to the specific needs of the different local communities. The Company will deliver optional services with a view to facilitating the ongoing migration process to efficient and cost-effective infrastructure solutions based on pan-European standards and practices. At the same time, EBA CLEARING will ensure that its services have the capacity to process in a robust and stable manner the volumes that are originated at the domestic level.

In order to maintain its high level of responsiveness to user needs, EBA CLEARING will continue its close exchange with its banks at pan-European, country group and bilateral level. The Company will also continue its constructive dialogue with other industry stakeholders.

## VIII. Committees and User Advisory Groups

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## **Audit & Finance Committee (AFC)**

The Audit & Finance Committee (AFC) has the mission of setting out the policy framework as well as the guidelines for the internal audit and of monitoring the financial status of the Company. The AFC is also in charge of liaising with the external auditors in-between two Annual General Meetings.

The detailed tasks of the AFC range from drawing up the internal audit plan and proposing the appointment of external auditors to examining the external audit report and deciding on the follow-ups to be taken.

Furthermore, the AFC reviews the effectiveness of the internal control systems and considers any major findings resulting from internal audit investigations.

## **Innovation Committee**

The mission of the Innovation Committee is to continue the EBA Group's thriving track record on innovation.

The newly created Committee has been given the task to identify and assess opportunities for EBA CLEARING to support its user banks in their evolving service delivery by providing them with innovative pan-European or – if appropriate – global infrastructure solutions firmly rooted in the collaborative space. To this effect, the role of the Innovation Committee is to closely survey market developments, trends and needs in order to assess the practical implications and specific business opportunities for EBA CLEARING.

The Committee is composed of payment experts with knowledge in key areas, such as IT systems architecture and business development. The Committee's main focus areas are technology/system architecture, new business models as well as new products and services.

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## **Operations & Technical Committee (OTC)**

The Operations & Technical Committee (OTC) focuses on the operational, procedural, functional and technical aspects with regard to EURO1, STEP1 and STEP2 payment services. Its major task is to examine and propose operational and technical enhancements to the infrastructure of the Company and to the procedures that govern this.

The OTC works in close co-operation with the EBA CLEARING Management, Country Group Representatives and User Advisory Groups. OTC tasks currently include the validation of project plans presented by EBA CLEARING Management for the implementation of new system releases as well as updating User Manuals and Code of Conducts.

Besides focusing on the payment services of EBA CLEARING, the OTC also serves as an expert forum for existing and future IT and communication developments including trends in the European payments industry, both on a national and SEPA level.

## **Strategy & Policy Committee (SPC)**

The Strategy & Policy Committee focuses on addressing the longer-term positioning and development of EBA CLEARING.

Through its constant monitoring of the payment industry, the SPC aims to identify and assess the banks' needs in order to propose and evaluate the development of products and services catering to these needs. The committee also considers the strategy for extending the services of the Company to new markets.

Besides analysing market facts and prospects, the SPC also examines the strengths and weaknesses of EBA CLEARING and tries to identify opportunities to enhance its competitive position.



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## STEP1 and STEP2 XCT User Advisory Groups

The STEP1 and STEP2 XCT User Advisory Groups (UAGs) represent the community of STEP1 and STEP2 XCT Participants, respectively, towards the EBA CLEARING Company. Both UAGs serve as a decision-making platform within the User Community and as an effective channel to express interests, requirements or proposals of their respective Participants towards the Board of the Company and its Committees.

The creation of User Advisory Groups ties in with the strong commitment of EBA CLEARING to provide the users of its services with a fair say in the direction of the Company.

UAGs are composed of representatives from each country or Grouping of Users. UAGs meet two to three times a year.



## IX. The Board

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### Chairman

**Giorgio Ferrero**  
Intesa Sanpaolo

### Deputy Chairman

**Robert Heisterborg**  
ING Bank

### Board Members

**Jean-Paul Aeberhardt**  
Crédit Agricole

**Luis Araújo**  
Caixa Geral de Depositos

**Yannick Chagnon**  
Société Générale

**Daniele Danese**  
Banco Popolare Società Cooperativa

**Kristine De Lepeleire**  
KBC Bank

**Thomas Egner**  
Commerzbank

**Pip Evans**  
Barclays Bank

**José Luis Fernandez Iglesias**  
Banco Bilbao Vizcaya Argentaria

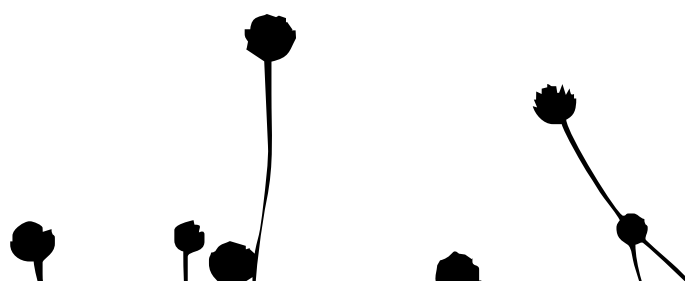
**Diarmuid Hanrahan**  
Allied Irish Banks

**Olli Kähkönen**  
Nordea Bank Finland

**Hays Littlejohn**  
UBS AG

**Roger Storm**  
Skandinaviska Enskilda Banken

**Christian Westerhaus**  
Deutsche Bank





## **X. The Management**

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### **Chief Executive Officer**

**Gilbert Lichter**

### **Senior management**

**François Boels**

Budget and Finance

**Daniel Szmukler**

Communications and Corporate Governance

**John Broxis**

STEP2 Services

**Alan Taylor**

EURO1/STEP1 Services

**Eric Charles**

General Administration

**André Vink**

Operations

## XI. Country Representatives

**Claus F. Hilles**

Austria, Germany, Switzerland

**Luis Minguez**

Spain

**Yasmina Safy**

France

**Daniela Vinci**

Italy



## **XII. Offices**

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