ABE EBA
EURO BANKING ASSOCIATION

EBA INSIGHT

EBA CLEARING

THE NEWSLETTER FOR THE EBA COMMUNITY
October 2012

In this *issue:*

EBA Group at Sibos 2012

During Sibos (Osaka, 29th October – 1st November 2012), the EBA Group organises two Special interest sessions. The EBA session "Lessons learnt from European payments integration" takes place on 30th October at 16:00 (local time) in Community Room 1; it includes a dialogue with representatives from the Japanese and US banking communities on the continued globalisation of financial activities. The EBA CLEARING session "The changing European payments landscape" takes place on 30th October at 14:00 (local time) in Community Room 1. Participants will receive an update on the changes made to the risk profile of EURO1, on the upgrade of the STEP2 platform for the SEPA migration end-date as well as on the MyBank project.

"Focussing on risk management and fostering a standing dialogue with our users on risk-related issues are key priorities on our agenda"

Reducing the risk exposure of EURO1 Participants towards the system has been a major agenda item on which EBA CLEARING made tangible progress over the past 12 months. Gilbert Lichter, CEO of EBA CLEARING, provides an update.

Q: Over the past 12 months, EBA CLEARING has carried out a comprehensive review of the risk profile of the EURO1 system, where do we stand now?

GL: The objectives of the program were threefold: firstly, to improve the risk management tools available to the participants combined with an important reduction of the mandatory credit risk taking on the part of each Participant in the system; secondly, to protect the system's integrity – and through this the position of its participants – in the case of severe turbulence in the market, potentially resulting from political uncertainties; thirdly, to maintain the very high level of liquidity efficiency of the system which is seen as one of its key benefits.

Q: What are the improvements to the participants' capability to manage their credit risk in the system?

GL: Participants can now review and reduce the bilateral limits granted to the other Participants up until 7:00 CET in the morning for effect on that day. This allows them to react promptly to overnight developments in the financial markets. Additionally, we have reduced the mandatory minimum amount for bilateral limits from EUR 5m to EUR 1m.

This means that in a situation of a serious deterioration of a participant's credit standing, the other participants are able to reduce their exposure on that stricken participant to the minimum of EUR 1m before the start of the operating day.

Q: How did the Company prepare for protecting the integrity of the system in case of severe problems in the market?

GL: Under the guidance of the Board Risk Committee, we have analysed a number of scenarios in relation to potential developments of a disruptive nature in the financial markets and the political environment. This has led us to adopt a catalogue of measures that we will action in case of such developments, again with the objective to protect the participants in the system.

Q: Can you tell us more about this?

GL: The Board Risk Committee has decided to refrain from communicating details on this matter, which by the way is in line with the approach taken by most of the banks as regards their own contingency planning.

Q: But can the Company afford not to communicate at all on this subject?

GL: We fully recognise that there is a legitimate interest on the part of the participants to understand the Company's approach in dealing with these issues and we are convinced that a dialogue with the risk managers of the participating banks is of real mutual benefit. The Board therefore decided to create a Risk Managers Forum – as a platform for a standing dialogue between the Management and interested risk managers from the banks. We think that such an environment will facilitate an exchange of information on emergency planning.

Q: Will the Forum limit its scope to an exchange of information on emergency scenarios and potential implications?

GL: No, the Risk Managers Forum has a much broader scope. When we implemented our risk management framework, we

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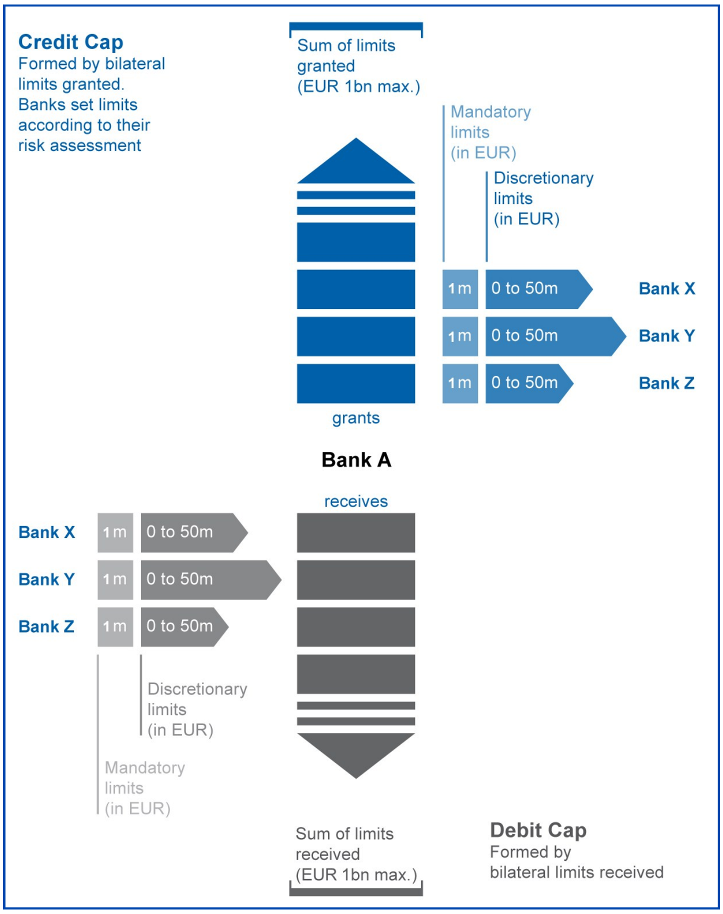
decided that we wanted to open up a wider dialogue with our participant community on risk management and risk mitigation in FMIs. So we agreed to put in place a forum that would allow interested participants to engage in this exchange with us. We certainly would like to take the opportunity of such a dialogue to present in greater detail the risk profile of the EURO1 system; at the same time we will explain the risk management tools provided to the participants to mitigate their risks related to participating in the system. We would as well like to discuss in the Forum issues arising from the implementation of the new CPSS IOSCO Principles for FMIs. We believe that it would be highly beneficial to address a number of oversight requirements – such as stress testing, recovery and resolution planning and others – together with the participants and, in particular, their risk managers.

Q: When will the Forum be launched?

GL: We are planning a first meeting for mid-December. Invitations will be sent to all EURO1 Participants in the coming days.

Composition of Debit and Credit Caps in EURO1



Q: You said the third objective is about maintaining the high liquidity efficiency of the system – what is the approach on this item?

GL: This is a very important aspect; there is no doubt that efficient liquidity management tools are critical. When reducing the mandatory minimum amount for bilateral limits, we were very much aware of the risk of deflating the liquidity available in the system. We therefore increased the maximum amount for the discretionary element of the bilateral limits – in addition to the mandatory amount – from EUR 25m to EUR 50m. In this way, participants can generate their required liquidity and payment capacity while at the same time pursuing a highly differentiated credit risk approach.

Q: Does this mean that the review of the risk profile of the EURO1 system is now closed or will the mandatory minimum limit be further reduced to zero?

GL: The Board came to the view that the question of abandoning the mandatory bilateral limits requires first an in-depth analysis of possible consequences, not least on the liquidity in the system and the risk sharing philosophy underlying the system. The Future Development Group (FDG) has been assigned to examine the matter. I could foresee that this question is addressed as part of the FDG's broader proposals to evolve the EURO1 system in the light of the new Principles for FMIs and – inevitably – of the migration of the payments industry to SEPA and ISO 20022. I should add that we expect an increase of the collateralisation requirements as a result of the upcoming implementation of the Principles for FMIs, which will add pressure to eliminating "multiple" participation in EURO1 by different entities of the same banking group.

Q: When do you expect these proposals to be delivered?

GL: The FDG together with the Management is working towards presenting first results at the next Shareholders meeting in May 2013. ■

SEPA BWG provides input on STEP2 enhancement program

The proposed resilience upgrade of the STEP2 platform was one of the key items on the agenda of the STEP2 SEPA Business Working Group, which met in Paris on 4th October 2012. Close to 30 representatives of Direct Participants in the STEP2 SEPA Services came to the meeting to express and exchange their views on the STEP2 enhancement program for SEPA and receive updates on this and other ongoing developments regarding the SEPA offerings of EBA CLEARING.

Implementation of third site proposed for November 2013

STEP2 Director John Broxis gave a detailed overview of the proposed resilience enhancements, which are based on recommendations made by Fraunhofer IAO. EBA CLEARING had asked Europe's largest organisation for application-oriented research to investigate possible architectures for an increased resilience of the STEP2 system. Fraunhofer IAO conducted a study into the state of the art of IT resilience in the payments industry and beyond as well as a survey into the business requirements of banks interested in using STEP2 for very large domestic volumes. They presented the results of their research and assessment to the EBA CLEARING Board in September.

▲ The EBA CLEARING speakers at the SEPA BWG meeting: Laura Ruiz, Erwin Kulk, John Broxis, Katja Heyder and David Renault

The proposed way forward consists in putting in place a third distant operations site for STEP2 for November 2013. The SEPA BWG discussed the details of the proposal, which will be submitted to the Board for decision at its November meeting. The group was also given an introductory presentation by Laura Ruiz from the Legal & Compliance Team on the future oversight principles that are expected to apply to STEP2 and will have a significant impact on the resilience requirements to be met by the system.

Furthermore, the STEP2 Team provided an update on other elements of the STEP2 enhancement program, such as the planning around the implementation of the functionality improvements and the ongoing performance upgrade.

Preparations for November 2012 release well on track

Another major focus of the meeting was the progress report on the November 2012 release. This release will introduce the SDD Core D-1 option and the value-added service CAI on the STEP2 platform. It will also facilitate the use of the new SCT evening cycle by three Irish banks. The team was happy to report that the testing exercise organised in co-operation with SIA has been progressing very smoothly. EBA CLEARING enhanced the Stand-Alone Testing Partner (SATP) for STEP2 SDD and developed a dedicated SATP for the STEP2 SCT Service in order to optimally support the Direct Participants in their testing activities.

Additional discussion topics included, among others, the overview document on the different country practices across Europe compiled by the SEPA BWG as well as the potential need for a BIC IBAN Directory. While the document on local particularities will be submitted to a last feedback round involving the different national communities, the SEPA BWG decided to wait for the outcome of an EPC survey investigating the BIC IBAN matter before addressing this topic again.

The next meeting of the STEP2 SEPA Business Working Group is scheduled to take place in early 2013. ■

Five questions on payments regulation to…
...Paul Anning, Partner, Osborne Clarke

"Banks should not overlook the Bear, the Snake and the Owl while dealing with the Elephant(s) in the room"

The EBA Winter School that took place near Milan in early October focussed on regulatory and risk requirements (see page 8 for further details).

In his session, Paul Anning, Head of Osborne Clarke's Financial Institutions Group and a specialist financial services lawyer, looked into the major recent and upcoming changes to the regulatory landscape and their impact on the payments industry. He shared some of his insights with us for this interview – EBA Winter and Summer School Alumni wishing to learn more can download his slides [here].

One of the legal experts among EBA Winter School speakers: Paul Anning

Q: With the SEPA migration end-date being less than 18 months away, banks are in the process of stepping up their efforts to achieve full and timely compliance with the new SEPA Regulation. Where do you see the key challenges around this implementation process?

PA: Strategic direction to implementation is the key challenge facing banks. Timely implementation is a given and requires banks to assess the impact of the SEPA Regulation on their services and products, to decide upon changes required and to implement those changes. Changes will typically fall into three categories – changes to systems, to processes and to customer documentation. Each of these has its own challenges: changes to systems require the longest lead time, yet the greatest precision as to requirements; changes to processes involve changes to habits and significant time briefing personnel; and changes to customer documentation requires a complete understanding of the customer's perspective (as well as quality legal input).

However, these activities can only truly be given direction once a bank has decided upon its strategic approach to implementation of the SEPA Regulation – all banks will implement, but how they implement will differ. Ensuring it advances their strategic objectives is the biggest challenge facing banks.

Q: The Payment Services Directive (PSD) was considered difficult to implement by multinational banks in particular because it first had to be transposed into national law, which led to different interpretations and national variations across Europe. The new SEPA Regulation directly came into effect in all EU Member States – does this mean that there are no uncertainties left around its interpretation?

PA: Transposition by Regulation (not Directive) reduces uncertainties – particularly as to timing – but does not eliminate them. The Commission has become quite frustrated by the time taken for Member States to transpose into local laws various European Financial Services measures: many miss the implementation deadlines, implement in part only or simply do not follow the agreed wording (sometimes as a way of clawing back ground lost during its development). While there are often good reasons for this, it dilutes the positive impact of their core objectives – advancing the Single Market.

The substantive provisions of the SEPA Regulation make it a good candidate for a Regulation in any event – they are very specific, there are few national derogations and there are few new concepts. One of the difficulties of the PSD was that it was ground-breaking in terms of coordinating a field of regulation around an area – Payments – which had not itself been regulated before in virtually any Member State. There will still

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be some interpretational differences, but far fewer, and many of these will be resolved at a European, rather than national, level. The next phase of harmonisation will be much trickier – consistent enforcement by competent regulatory authorities.

Q: The European Commission must present its report on the application of the Payment Services Directive by 1st November 2012. Do you expect that any amendments will be brought to the PSD following this report?

PA: Yes, for sure the PSD will be amended, but when is not clear. There are some mandatory areas for review – one-leg-out transactions will likely come into scope hopefully with a suitably tailored application, but non-European currencies (like the US$) should remain out of scope. These aside, my hope is that the Commission will take a forward-looking, unifying approach and include the second Electronic Money Directive (2EMD) in the review, so that there is a single regime, and that they will align the PSD better with other related measures (such as money laundering, consumer credit etc.). Any amendments to the PSD will also be influenced by the Commission's Green Paper "Towards an integrated European market for cards, internet and mobile payments" (January 2012) and the ECB's "Recommendations for the Security of Internet Payments" (April 2012).

I do not foresee wholesale changes to the execution requirements (i.e. D+1, SHA and 'no float'), though there will be tinkering around the edges, and I would like to see the Corporate Opt-Out regime extended. I do foresee however that the Commission may use the PSD review to encourage competition further, including access to payment systems.

Q: The theme of this year's EBA Winter School is "SEPA Payments – Is Bank Regulation the only Elephant in the Room?" While the SEPA Regulation and the PSD are doubtlessly two major elephants in the room, are there any other animals in this room that banks should not overlook or underestimate?

PA: Yes, the Bear, the Snake and the Owl. The Bear represents the competition authorities, who in the Payments field alone are currently reviewing the levels of interchange (or MIFs) levied by the card networks, the EPC's approach to standard setting, and more generally the 'club' nature of the banking industry. The Snake signifies a series of specific measures yet to flow from the Commission's Green Paper – security (of payments), separation (of processing from scheme), (open) source software, standardisation, surcharging and switching. The Owl represents wisdom, here, governance of the payments industry and setting strategy for payments. There will be further change in the governance of Payments.

Q: The increasing regulatory requirements unarguably represent a major burden for the financial industry. Do you see any areas though where these rules might create product opportunities for banks?

PA: Yes, including in 'Big Data'. The regulatory regime is forcing banks to re-think their strategy, proposition and use of IT. A key factor to success though will be the ability to harness, package and sell real-time relevant data and information. ■

European e-merchants call for MyBank implementation

Representatives of Italian banks, integrators and e-merchants met in Milan on 24th October 2012 to discuss the roll-out of MyBank in Italy following the successful completion of the pilot phase. The pilot testing involved participants from five countries and confirmed the smooth functioning of the solution both at a national and at a cross-border level.

E-merchants and e-merchant associations across Europe continue to voice their strong support of the MyBank initiative as a solution that they feel will meet some of their key

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payment-related needs. Ecommerce Europe, an organisation representing e-merchants and national associations of e-merchants at European level, issued a "Position Paper E-payments" on 9th October 2012 in which it explicitly urges the European payments industry to implement MyBank and offer accompanying services to merchants and consumers.

E-merchants Lucio Carli (Fratelli Carli), Guido Rugginini (Internet Bookshop Italia - IBS) and Gianni Perniceni (Meridiana Fly S.p.A.) engaged in fruitful dialogue with bank and EBA CLEARING representatives

Over the past few months, EBA CLEARING has been meeting with a number of banking communities as well as with individual payment service providers and integrators to support them in their MyBank roll-out preparations and considerations. During a visit with the major Greek banks and the national e-commerce association, three banks confirmed their intention to join MyBank; they plan to start testing in 2013.

Representatives of Italian banks, integrators and e-merchants discussing MyBank

A new MyBank brochure will be available at EBA CLEARING's Special interest session at Sibos next week. The brochure can be downloaded at www.mybankpayments.eu. The Company plans to issue a detailed progress report on MyBank before the end of the year. ■

"MyBank will unlock e-payments for all European countries, through the familiar and trusted online banking portal in combination with the SEPA payment instruments SCT and SDD. Web merchants have great expectations for this solution, as it will combine reach and conversion […]"
Position Paper E-payments (2012)
Ecommerce Europe

High satisfaction rates for EBA CLEARING's Customer Support

In April 2012, EBA CLEARING carried out its annual online survey among its customers to assess the overall quality of the support the Investigations and Customer Support Unit (ICU) provides to the users of the EBA CLEARING Services. Out of more than 300 contacts who had received an invitation, 144 users from 20 different countries completed the survey, representing a total of 86 different customer banks. The overall results are very positive: 86 percent of the users (up from 83 percent in 2011) reported to be satisfied or very satisfied with the support provided, and in only a mere 0.9 percent of the cases (down from 1.1 percent) did customers indicate to be dissatisfied with the service offered by EBA CLEARING's Customer Support.

Customers noted in particular an improvement in the query response time and the overall quality of responses. Most suggestions for improvements included a more user-friendly version of the online "ICU Web Form". The first measures to improve the web form have already been taken: It is now possible to include more than one e-mail contact when submitting a query via the web form and a copy of the query is included in the receipt message.

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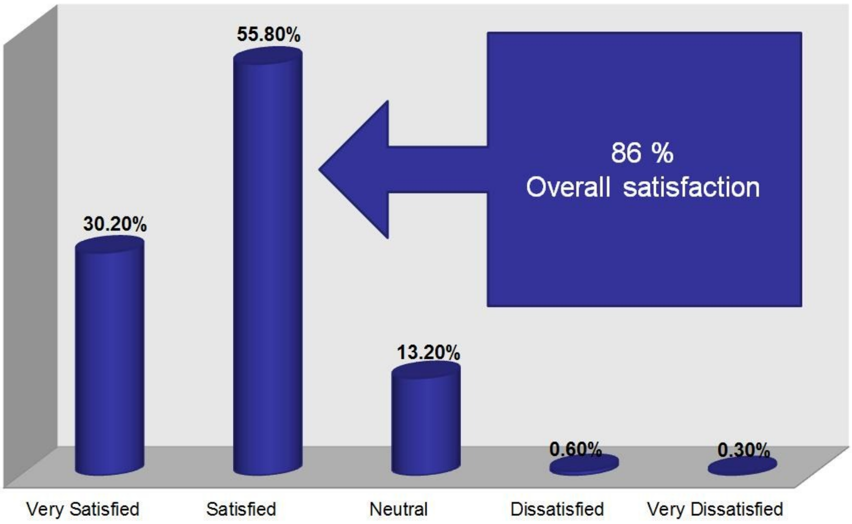
Mouse-over information boxes have also been put in place, giving customers more detailed information on how to fill out the various fields of the web form.

EBA CLEARING's Customer Support Unit currently handles approximately 130 cases per month, which is 35 percent less than in 2011. The decrease can be explained by two enhancements: contact list updates no longer require ICU intervention but are now channelled directly to the contact list database for approval and frequent queries regarding EBA CLEARING's STEP2 Services can now be submitted directly via the Direct Participant Work Station (e.g. offline payment detail and file retransmission requests).

The Customer Support survey is conducted once a year among users of EBA CLEARING's Customer Support service with a view to monitoring customer needs, concerns and satisfaction levels over a longer period. A new survey invitation will be sent to the ICU Web Form users in the course of 2013. ■



▲ Satisfaction rates of the EBA CLEARING Customer Support.

EBA educational events 2012 valued for speaker input and networking opportunities

The fifth EBA Summer School "Strategic Partnering for Success" took place in St-Laurent–du-Var, France, from 26th to 28th June 2012. Hosted by IBM, the programme included a full day at IBM's Innovation Center in La Gaude. The EBA Summer School 2012 focused on the challenges of strategic partnering, covering practical industry-wide examples, case studies and lessons drawn from the participants' own experiences on how to partner effectively in the areas of payments and transaction banking.

◄▼ EBA Summer and Winter School 2012 delegates (below and left, respectively

The second educational event of 2012, the EBA Winter School "SEPA Payments – Is Bank Regulation the only Elephant in the Room?", was held in Verbania, Italy, from 9th to 11th October. The seminar was sponsored by SIA. It explored opportunities on how banks and their partner organisations can translate regulatory necessity into commercial and customer opportunity, and

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provided an insight into what financial institutions would need to do to manage the pathway to regulatory compliance during times of economic distress.

In both events, delegates were given the opportunity to collaborate in teams to brainstorm practical ideas and proposals on the respective topics. As has become customary, both schools featured key academic and practitioner input, case studies and animated discussions.

Consequently, delegates rated both educational offering very highly, valuing especially the "highly interactive character" and the "great networking opportunities", as well as the "excellent speakers" and the "valuable and very informative topics". ■

▼ EBA Winter School speakers Björn Flismark and Ugo Bechis

▼ Summer School speaker Prof. Jürgen Bott and the event's chair, Ashley Dowson

Euro Finance Week 2012

As in previous years, the EBA Group will be present with a stand on the first two days of the Frankfurt Euro Finance Week (19th and 20th November 2012), providing information on its services and activities to the German-speaking community. The EBA also contributes to the programme of the payments conference "SEPA und was nun?", which takes place on 19th November 2012. EBA and EBA CLEARING representatives look forward to meeting you at the Euro Finance Week 2012! ■

EBAday 2013 to take place in Berlin

EBAday 2013

EBAday, one of Europe's leading conferences on payments, will take place at Berlin's Estrel Convention Centre on 21st and 22nd May 2013. The Annual General Meeting of the Euro Banking Association as well as EBA CLEARING's Shareholders Meeting will be held afterwards, on 23rd May.

EBAday 2013 will look beyond the practical compliance requirements of operating in a Single Euro Payments Area and deal with the critical strategic questions that banks must address if they are to prosper in the new business environment. ■

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