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The SEPA end-date: the challenges of compliance

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Open an industry publication these days and you will find articles, reports and comments lamenting the "SEPA end-date" of February 2014. In just a few months' time massive changes will take place in the payments industry in Europe, impacting banks, corporates, clearing houses and consumers. The Single Euro Payments Area project (SEPA for short) will have reached its end-date. What does all this mean?

Harmonization in payments

The European payments market is a very large market: the 17-country euro zone alone comprises more than 330 million people, 16 to 18 million registered businesses and approximately 8,000 banks. This market generates more than 55 billion electronic payment transactions per year. This payments market is fragmented along national boundaries, however. Usage of payment instruments, formats, standards and practices vary country by country. Making cross-border payments has been complex, costly, took a long time and was fraught with uncertainty and risk. In sum, although Europe had moved towards an internal, single market in many areas in recent years, the single market in payments just did not exist yet. SEPA aims to change all this.

Many years of effort

As early as 1999 the European Commission pointed out that significant economic benefits could be achieved if the payments market were to be harmonized across national boundaries. The banking industry responded by organizing itself in the European Payments Council (EPC) and starting the SEPA project. Over the following years the EPC developed common rules, standards and guidelines for payments ? an enormous effort was expended. But soon the payments market operated with duality: the new pan-European SEPA payment instruments had been developed and were available for use, but not everyone was using them yet. In fact, banks and corporates used both the "old" national payment instruments as well as "new" SEPA standards. This duality was far from satisfactory: it was costly and complex and did not achieve the desired harmonization.

In March 2012, the SEPA project moved from being a self-regulatory initiative of the European banking industry to becoming a regulatory requirement. Credit Transfers and Direct Debits in Euro Regulation 260/212 (commonly called "SEPA End-Date Regulation") became effective for euro payments in 32 countries in Europe.

The meaning of the end-date

The so-called end-date means that duality ends in February 2014: euro low-value payments may only be effected if they follow SEPA standards, formats and rules. For the 17 euro zone countries, the mandatory end-date is February 1, 2014. A later time line ? October 31, 2016 ? is the regulatory end-date for the non-euro zone countries. In sum, from 2016, there will be 32 countries in Europe having harmonized their low-value euro payments traffic thus having arrived at a Single Euro Payments Area.

Complying with the SEPA Regulation

An EU Regulation is a legislative act of the European Union that is directly applicable and becomes immediately enforceable as law in all EU member states simultaneously. Since March 31 2012, the SEPA Regulation has binding legal force throughout the EU, on par with national laws. Despite many hopeful comments that the regulators would allow for a grace period, or that the regulation would somehow not be "binding", this just is not so: there is no grace period, the deadline of February 2014 stands firm. In fact, the regulators have been quite vocal about stating that there is only a Plan A (i.e., achieving SEPA compliance by 1st February 2014. There is no Plan B. In other words, non-compliance with the Regulation means breaching EU law.

The supervision of SEPA compliance and potential sanctions in case of non-compliance is up to each individual member state. As country after country has started naming its supervisory authority and publishing potential sanctions, it is clear that applicable penalties can be quite hefty. It is quite obvious then that the SEPA end-date regulation needs to be taken seriously, implemented by the prescribed date, and fully complied with.

Compliance challenges

If SEPA has not been implemented yet within an organization, compliance staff must ensure that their organization has set up a formal SEPA project, which is funded, resourced, follows a detailed work plan and receives sufficient senior management attention. Failure to comply with SEPA could mean that payments cannot be made because the old formats for credit transfers will no longer be accepted by counterparts. This could lead to salaries or invoices not being paid. It could also result in payments not being received because the organization has not implemented the new standard for direct debit, thus negatively impacting cash flow and liquidity.

Experience has shown that the effort of moving one's payments business to SEPA standards must not be underestimated: on average at least 6 to 12 months need to be anticipated. If a firm is a heavy direct debit user, or has a decentralized organization structure, or uses an in-house IT system the SEPA project could take considerably longer. SEPA is not a simple IT project which can be managed by making a few format changes on the payments platform shortly before February 2014. SEPA rules are not an easy read: they must be thoroughly analysed, their impact on the organization and its customers must be assessed and applied.

All parts of an organization are affected by SEPA ranging from sales, purchasing, product management, human resources, client service, legal, accounting, marketing and communications, facility management, to the mail room. Moreover, payments is a network business, i.e., it involves at least a payor and a payee and usually a bank in the middle. Thus thorough testing before February 2014 to ensure that the other part(s) of the payments chain can receive SEPA payments is absolutely critical.

Help is at hand

Where does one go for help? Banks, consultants, and vendors have been communicating the components of SEPA compliance for quite a while and are available for information and practical guidance. Professional associations and industry forums have started to hold seminars explaining how their members are affected. And last but not least the regulators have stepped up their communications efforts, both on a national as well as EU level.

Beyond February 2014

What will happen after February 2014, and will all be well? That's hard to say. Many banks are in good shape having worked on SEPA compliance for a long time. Large corporates have made great progress over the last year. Smaller businesses, however, are the real laggards. And since they are the locomotive of an economy this is where many risks lie. So one can expect a certain amount of disruption in the payments market next year. SEPA will keep us busy for a long time. Nevertheless, despite likely deficiencies, a major step towards harmonization will have been achieved.

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