



**HOW TO MAKE THE
SINGLE EURO PAYMENTS AREA - SEPA
A REALITY**

**CYPRUS SEPA MIGRATION PLAN
2006 - 2008**

*ASSOCIATION OF CYPRUS COMMERCIAL BANKS
OCTOBER 2006*

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The SEPA Commitment

Declaration adopted by the European Payments Council (EPC) Plenary on 17th March 2005 where the European Banking Industry has fully committed itself to the success of SEPA

"We, the EPC, are committed to building the Single Euro Payments Area (SEPA) and have already delivered SEPA payment solutions which are in growing use by European citizens and corporates. We have approved and are delivering a Roadmap for the full realisation of SEPA.

We will deliver the two new Pan-Euro Payment Schemes for electronic credit transfers and for direct debits. We will also design a Cards Framework to define a single market for cards. The scheme rulebooks and the cards framework definition will be delivered by end 2005, and the services will be operational by January 2008.

We know from feedback from our community in the euro-area that by the beginning of 2008 the vast majority of banks will offer these new Pan-Euro services to their customers.

We are also convinced that a critical mass of transactions will naturally migrate to these payment instruments by 2010 such that SEPA will be irreversible through the operation of market forces and network effects.

SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities (consumers, SMEs, merchants, corporates and government bodies) and supportive public authorities. The community of European banks is strongly committed to this ambitious programme of action, based on self-regulation and a full recognition of the role of market forces and competition.

We have created the necessary conditions for success through commitment and consensus on the part of EPC and all its banking communities."

1. EXECUTIVE SUMMARY

Considering the declaration adopted by the European Payments Council Plenary on 17th March 2005, the Cypriot Banking Community is committed to offer SEPA compliant payment instruments (Credit transfer, Direct Debit, Cards) and succeed full migration by the end of 2010. In order to achieve this, it is imperative that a plan whose main objective is to describe Cyprus migration path towards the implementation of SEPA is formulated and implemented.

The Association of Cyprus Commercial Banks (ACCB) took the initiative and prepared the Cyprus SEPA Migration Plan aiming to provide essential information about the vision and implementation process of SEPA to all stakeholders involved. It shall also provide the source material from which they will be able to create tailored activities for their own stakeholders and audiences.

The scale of the SEPA program is as significant and even more complex than the introduction of the Euro, since it will involve changes in the infrastructure, systems, procedures and even in the payment habits of most involved parties. It therefore needs a business and operational response by all stakeholders, including government, agencies and acceptance by customers (Retail, SMEs, Corporates etc). But most of all, it needs public authorities to create the right environment for success.

SEPA is not only about improving the processing efficiency of the cross border euro payments. SEPA is a major restructuring and harmonising project which will impact national payments markets and will implement new, common business rules and technical standards (please refer to Appendix C for background information). All electronic payments will be impacted as a result and core credit transfers, direct debits and card payments will migrate to interoperable formats and processes. At the same time, existing national market features and practices in relation to the core instruments will gradually be phased out. Every citizen, merchant, public administration and corporate with **a single banking account** will be able to make and receive payments in Euro, within Europe, whether between or within national boundaries under the same basic conditions, costs, rights and obligations, regardless of their location. All banks irrespective of their size, have the opportunity to compete and acquire new business throughout Europe without the physical presence in other countries.

For example, a Greek citizen living in Nicosia will be able to pay his Cyprus utility bills e.g. telephone bills, through a banking account he maintains in Athens with the same easiness as if he maintained an account with a Bank in Cyprus. Thus, there will be no need for him to maintain a banking account in Cyprus in order to pay his utility bills by direct debit. Likewise a Cypriot citizen living in Athens will be able to pay his Greek utility bills eg. telephone bills, through a banking account he maintains in Nicosia with the same easiness as if he maintained an account with a Bank in Greece. Thus, there will be no need for him to maintain a banking account in Athens in order to pay his utility bills by direct debit. Charges will be the same for all European citizens irrespective on whether the payment is domestic or cross border. The magnitude of charges will be determined not only by the market conditions within the national boundaries but also by the market (competition) of all SEPA participating countries.

The European Commission (EC) is drafting the new 'Payment Services Directive' (PSD) in order to provide one of the fundamental building blocks (harmonized legal

framework) for the SEPA vision and “bring down the existing legal barriers to enable the creation of a single payments area in the EU”. As a result of the proposed PSD, competition will be enhanced since non-bank providers of payment services will also be able to operate under the same conditions and rules with any financial institution in the payments area.

Cyprus is committed to adopt all EPC recommendations so as to secure a successful SEPA migration for 2010 (please refer to Appendix D: “Creating the right environment for success”). Therefore, it is crucial that SEPA is handled as a project and all involved stakeholders are committed and co-ordinated based on a national Cyprus SEPA Migration Plan. In view of the size and complexity of the project, strict project management rules and practices must be followed.

In order to align decision makers and implementers across the Cyprus Banking Community, a project organisation must be set-up to manage the Cyprus SEPA Migration Plan (refer to Appendix A) which is segregated into three phases as follows:

Phase 1: Preparation of the Cyprus SEPA Migration Plan in 2006

Phase 2: Preparation & Implementation of SEPA Products by 1.1.2008

Phase 3: Migration of National Schemes by end of 2010

The project organisation (refer to Appendix B) will be comprised by the following:

- **The National SEPA Steering Committee (NSSC):** The highest decision making body with overall responsibility to compile and monitor the implementation of the Cyprus SEPA Migration Plan. This body will be comprised of 12 Senior Executives from the Central Bank of Cyprus (CBC), public authorities, banks and other stakeholders.
- **The Programme Office:** A qualified individual to be appointed by the National SEPA Steering Committee as Programme Manager with overall responsibility to plan, communicate, coordinate all aspects of SEPA implementation and report to the National SEPA Steering Committee.
- **Implementation Groups:** For each SEPA scheme (Credit Transfer, Direct Debits, Cards) a group will be set up, comprising of representatives of the Banking Community and other stakeholders. The responsibilities of each group will be to organise the SEPA implementation project assigned to them.
- **Communication Project Manager:** To be appointed by the National SEPA Steering Committee who in close co-operation with the Programme Manager will develop and implement the Communication Plan. The Communication Plan must be approved by the National SEPA Steering Committee.
- **ACCB Payments Advisory Committee:** ACCB being the representative of Cyprus in the EPC will continue to provide consultation support and secure the proper information flow from and to EPC. The ACCB Payments Advisory Committee with its Sub Committees (SEPA Credit Transfers and Direct Debits, Cards Framework, Legal Framework, SECA, AML Committee) is the consultative body, for all issues relating to payments for the ACCB members.

Apart from the objective to secure short-term deliverables for compliance by 1st January 2008, at the same time we have to plan for long term objectives for payments. For example, we also have to acknowledge and promote the strategy of “**Each citizen to have a banking account**” by educating prospective customers at the right time

e.g. people leaving school etc, and make coordinated efforts to secure reduction of the usage of CASH and CHEQUES.

It is important that stakeholders and in particular the banking sector will not see SEPA as merely a compliance project, but rather as a cost saving and business enlarging opportunity. Banks will need to understand SEPA in detail, asses its impact on their costs and revenues, review the impact of competitors' offers and analyze their strengths and weaknesses in the future payments market. For the banking sector, SEPA is an opportunity to be creative, to innovate, to win new markets and generate new income as old products are replaced.

The first deadline /milestone of 1st January 2008, when we have to be ready to offer the first SEPA compliant products, is approaching rapidly. Consequently, it is crucial that all stakeholders (i.e. Banks, Central Bank of Cyprus, Clearing and Settlement Mechanisms, Federations and Associations of Consumers, Merchants, Corporates, Public Authorities, etc) support the scope and vision of SEPA, prepare effectively and efficiently all coming changes, act quickly by accepting the Cyprus SEPA Migration Plan and provide strong commitment to its implementation.

2. PURPOSE OF THE DOCUMENT

As defined in the “EPC roadmap 2004-2010”, SEPA will be delivered in three phases being:

- 1) Design and preparation
- 2) Implementation and deployment and
- 3) Co-existence and gradual adoption.

In preparation for the implementation phase and in order to raise awareness amongst all stakeholders, EPC and the European Central Bank (ECB) have requested all participating member states to prepare a Migration Plan in which they should describe their current situation and their future plans for the implementation of SEPA.

In particular this document is aimed to describe:

- The overall vision and scope of SEPA
- The content and philosophy of the SEPA Schemes and Frameworks
- The right environment that should lead to the success of SEPA in Cyprus
- The roles and responsibilities of the stakeholders in the SEPA program
- The existing situation, objectives, roadmap and phases of the Cyprus SEPA Migration Plan

3. THE CYPRUS SEPA MIGRATION PLAN

3.1 Payments as affected by SEPA

3.1.1. Credit Transfers

Existing Situation

1. Domestic credit transfers for amounts up to CYP30.000 (EUR50.000) are handled by the local retail Settlement Mechanism (JCC). All credit transfers received by JCC are sorted by bank; net settlement position is given to Central Bank of Cyprus and files are then electronically forwarded to each bank to be processed within the same day. Maximum execution time is two Banking Day following the date of Acceptance (D+2). Rejections are automated and sent back electronically to JCC using specific rejection codes. Charges are borne by the debtor.
2. Domestic credit transfers in CYP not processed through JCC are handled through the Large Value Payments System operated by the Central Bank of Cyprus, while transfers in currencies other than CYP are handled by other SWIFT based systems.
3. No IBAN or BIC are required for domestic transfers through the local Settlement Mechanism.
4. It is not mandatory for the originator to hold a bank account. Payments against cash are accepted.
5. Credit Transfer charges vary according to each bank.

New Characteristics

1. SEPA Credit Transfers will be in Euro and there will be no limit for payments execution. There will be a reporting limit of currently EUR 50.000.
2. IBAN and BIC are mandatory. It is required that both the originator and the beneficiary maintain a bank account in any currency.
3. There is full reachability within SEPA.
4. Common mechanism of credit transfers for either national or cross border transfers.
5. Maximum execution time of D+3 which will become D+1 by 2012.
6. There will be a choice for executing the transfer at a future date.
7. Specific rules for "Rejects and Returns" handling will apply.
8. The banking charges are shared by the debtor and creditor with separate transactions in their accounts, thus to ensure that credit transfer

transactions is for the whole amount. Charges amounts must be same irrespective of whether transfers are domestic or cross border.

9. The Clearing and Settlement between the “Originator Bank” and the “Beneficiary Bank” is made by the chosen CSM which must be SEPA Compliant.
10. Straight Through Processing (STP).
11. Same security and efficiency of credit transfers within SEPA.
12. UNIFI (ISO 20022) XML Standard.
13. Recurrent and one off Credit Transfers.

3.1.2. Direct Debits (DD)

Existing Situation

1. There is no Direct Debit national scheme. Nevertheless, an arrangement has been agreed between Banks to exchange files for direct debit payments.
2. The creditor is obliged to maintain separate accounts with each bank in order to sort and forward Direct Debits to each bank according to where the debtor’s bank account is held.
3. An agreement is signed between the bank and the creditor.
4. A unique creditor identification code is administered by the Association of Cyprus Commercial Banks (ACCB) for each creditor participating in the domestic DD scheme.
5. An application/authorisation (mandate) is completed and signed by the debtor and forwarded to the bank he maintains the account, to establish the Direct Debit. The mandate is standardised, agreed by the Cyprus Banking Community and contains legal text and fields that are mandatory. Copy of the mandate is also kept by the creditor.
6. For each due date a separate DD file is processed.
7. Banks offer this service with no processing charge. Most Banks charge a small set up fee.

New Characteristics

1. There will be no limit on DD in Euro within SEPA.
2. IBAN and BIC are mandatory. It is required that the creditor (payee) and debtor (payer) maintain a bank account which could be in any currency. The creditor is no longer obliged to maintain bank accounts in multiple banks.

3. An application/authorization (mandate) is completed and signed by the debtor and forward to his creditor. The text of the mandate has been standardized by the EPC. The creditor must send the information of the mandate to the creditor bank as part of each DD collection.
4. The debtor has the option not to accept DD from a specific creditor.
5. There is full reachability within SEPA.
6. Common mechanism of DD for either national or cross border.
7. There will be a choice to have multiple due dates in each DD file. Processing will be done on due date.
8. Specific rules for “Rejects, Refusals, Reversals, Revocations, Cancellations and Returns”.
9. Specific rules for “Refunds by Debtor”.
10. The banking charges are shared by the debtor and creditor with separate transaction in their accounts, thus to ensure that DD transaction is for the whole amount. Charges amounts must be same irrespective of whether DD are domestic or cross border.
11. The Clearing and Settlement between the “Debtor Bank” and the “Creditor Bank” is made by the chosen CSM which must be SEPA Compliant.
12. A unique creditor identification code must be administered at national level.
13. Straight Through Processing (STP).
14. Same security and efficiency of DD within SEPA.
15. UNIFI (ISO 20022) XML Standard.
16. Recurrent and one off DD.

3.1.3. Cards

Existing Situation

1. There is no local Scheme for cards in Cyprus. International Schemes are used such as VISA, MASTERCARD, AMERICAN EXPRESS and DINERS.
2. Debit and Credit cards operate with magnetic stripes.
3. Charges: Different pricing is used for domestic and cross-border transactions.

New Characteristics

1. Cards must be EMV compliant (chip and pin). A new project is already in progress and is co-ordinated by JCC with the participation of all Cypriot Banks in order to migrate all existing cards to EMV. It will be implemented on a pilot basis beginning of 2007.
2. After the implementation of EMV, every cardholder within the Eurozone will be able to use his card on any ATM or POS at the same cost whether he uses it within the country of its issue or not.

3.1.4. Cash/ Cheques

Existing Situation

Cheques and cash are highly used in Cyprus, both in private and commercial transactions. For customers the only cost of using cheques is the value of the cheque book.

Clearing of cheques is done through the Central Bank of Cyprus with the physical presentation of the cheques.

New Characteristics

Use of cheques and cash should be discouraged as much as possible and cost efficient pan-European payment instruments must be used alternatively.

3.1.5. Clearing & Settlement Mechanisms

Existing Situation

Over recent decades, automated clearing houses (ACHs) have been evolving independently of each other and within the scope of their national boundaries, in most cases, ACHs have selected and implanted their own technologies, platforms, formats and service levels, as well as governance models. Banks have implemented those specific technologies and clearing practices on a per country basis. But now regulatory pressure is being applied for domestic ACHs to develop a cross border franchise. The project of the transformation from domestic clearer to a pan-European ACH (PE-ACH) is seen by some as offering new growth opportunities, while for others it threatens their longstanding business model.

For Cyprus JCC is considered to be the domestic ACH.

New Characteristics

There is a move towards the consolidation of ACHs with common standards. Consolidation would reduce the number of ACHs (presently over 30) while raising the processing volumes accordingly. Since in the Eurozone there are 50 – 60 billion transactions handled annually, each ACH would be required to sustain at least 10 billion transactions.

Industry consensus is that there will be more than one PE-ACH, with estimates varying between two and five, thus preventing the creation of a monopoly. It follows that to create these PE-ACHs there will be mergers and alliances among the national ACHs to enable benefits from economies of scale and lower costs.

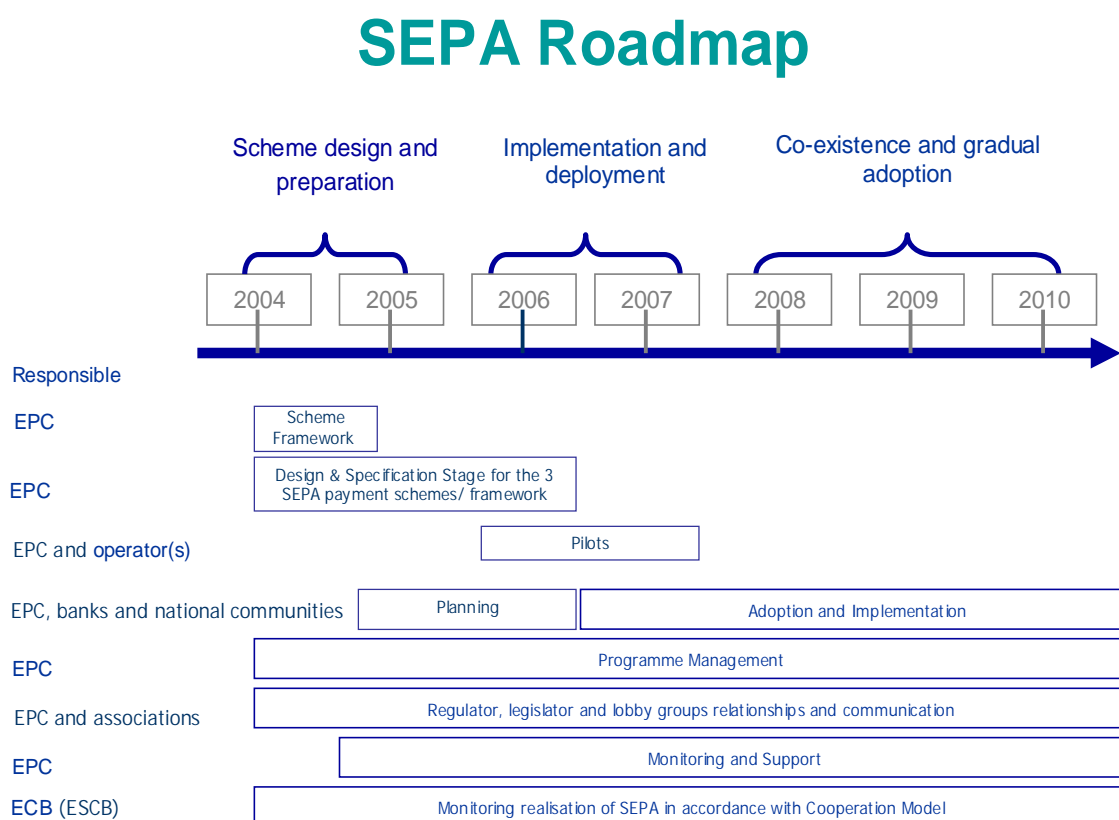
JCC in order to be transformed from domestic to a pan-European ACH must become SEPA compliant and therefore be able to handle billions of EURO transactions. JCC should plan and prepare the necessary infrastructure to meet the new SEPA environment according to SEPA instruments and standards if it opts to proceed and become SEPA compliant.

In case JCC is not ready to meet SEPA requirements by the end of 2010, either due to system changes or high costs, it could always act as an intermediary for banks. This means that JCC should be able to receive files from banks, transform them according to SEPA standards (file layout according to SEPA) and then forward them through other clearing houses which are SEPA compliant.

The EBA Clearing is PE-ACH compliant and all Cypriot banks (direct or indirect participants of STEP1 and STEP2) are using services from EBA, it is therefore considered a high possibility option to be selected as the preferred CSM option for banks in Cyprus.

3.2. Project outline/ Cyprus Roadmap

The Cyprus SEPA Migration Plan is aligned with the EPC Roadmap 2004-2010.



The Cyprus SEPA Migration Plan is divided into the following three phases:

3.2.1. Phase 1: Preparation of the Cyprus SEPA Migration Plan

The ACCB has on its own initiative instructed the Payments Committee which operates within ACCB to draft the Cyprus SEPA Migration Plan. The Plan has been completed and approved following consultations among the Cyprus Banking Community and other stakeholders which were completed on 24 November, 2006.

In June 2006, the Central Bank of Cyprus in conjunction with the ACCB, invited representatives of the Banking Community, and other users of payment systems and payment instruments at a presentation on SEPA, the SEPA schemes and the action that must be taken by the various stakeholders in implementing SEPA. A similar presentation but targeted more towards banks was organised later in the same month, which was attended by a large number of representatives from various departments of banks. Both presentations were considered as a success in providing an initial awareness on SEPA, the SEPA Schemes and the action that must be taken so that Cyprus is ready for the 1st January 2008 deadline.

3.2.2. Phase 2: Preparation and Implementation of SEPA Products by 1.1.2008

The Cyprus Banking Community will commence work towards examining their options in becoming SEPA compliant within the very tight time constraints. Both internal as well as external development and testing will have to commence for the Credit Transfer and the Direct Debit Schemes the earliest possible so that the Cyprus Banking Community is ready to offer SEPA products by 1st January 2008.

Each bank has the option to utilize the SEPA Scheme Rulebooks as basis to develop and implement products and services offering also Additional Optional Services (AOS).

In order to become compliant with the Cards Framework, the cards in Cyprus must become EMV. The EMV project in Cyprus has already commenced and it is scheduled that the project will be completed within 2007. Thus, Cyprus will be compliant as regards this area and no further action is required apart from the review of the charges which is an individual project for each Bank.

During this period the existing National Infrastructures must decide whether they will also migrate and become SEPA compliant in order to be able to process the SEPA products.

A Programme Office must also be set up which will be responsible to monitor and control the progress of the Cyprus SEPA Migration Plan, while a Communications Office must also be set which will be responsible for the communication for promoting SEPA.

3.2.3. Phase 3: Migration of National Schemes by end of 2010

Once the SEPA schemes have been implemented then the Programme Office must draft another plan for the Cyprus Migration on how the user of payments services will

gradually migrate totally to SEPA Schemes by the end of 2010. Similarly, the plan must be approved by the Cyprus National SEPA Steering Committee and its implementation monitored and controlled by the Programme Office. A crucial success factor in this phase will be, once again, the SEPA communication in the Cyprus Community.

The existing Direct Debit arrangements and Credit Transfer mechanism will continue to be offered by the Cyprus Banking Community until the end of 2010.

3.2.4. Parallel Activities

Along with the work to be done by the EPC, other projects will be dealt with such as Fraud, Mobile payments, Electronic bill presentment, cards standardisation, etc.

3.3. Roles and Responsibilities

3.3.1. Role of Central Bank of Cyprus

1. Responsible for monitoring and facilitating the implementation of the Cyprus SEPA Migration Plan by establishing and chairing the **National SEPA Steering Committee (NSSC)** under its auspices.

The Core NSSC will be composed by representatives of the Central Bank of Cyprus, the Ministry of Finance, the Association of Cyprus Commercial Banks and the Commissioner for the Supervision and Development of Cooperative Companies. The Extended NSSC will, in addition include Senior Executives from banks, other public authorities and stakeholders who will be invited to attend meetings of the NSSC depending on the relevance of the content of the agenda.

The NSSC will:

- establish a Programme Office, Implementation Groups and appoint a Communication Manager for undertaking the responsibility to implement the Cyprus SEPA Migration Plan (planning, set up, implementation, communication, research, legislation and regulations).
 - monitor and support overall implementation of the Cyprus SEPA Migration Plan.
 - set up budget for project, training and awareness of SEPA
2. Draft and implement legislative and regulatory provisions for SEPA support.
 3. Become 'early adopter' of new pan-European payment instruments.

3.3.2. Role of the Ministry of Finance and other Government Bodies (Ministry of Commerce, Industry & Tourism, Ministry of Labour, Parliament, Financial Ombudsman)

1. Support the implementation and create the appropriate legislative and regulatory provisions for SEPA.

2. Being a member of ECOFIN, the Ministry of Finance must be actively involved in the SEPA project.
3. Ensure free competition.
4. Upon approval of the Scheme Management Entity (SME) obligations, the duties of the Financial Ombudsman must be adjusted accordingly.
5. Become 'early adopters' of new SEPA instruments.
6. Plan and monitor Communication Schemes within public authorities.
7. Promote banking habit from early stages e.g. student opening of accounts.
8. Participate in the National SEPA Steering Committee.

3.3.3. Role of ACCB

1. Represent the Cyprus Banking Community at the EPC and act as a liaison with all concerned parties (updates, circulation of material, etc).
2. Participate in the National SEPA Steering Committee, representing the Cyprus commercial banks.
3. Drafting of the proposed Cyprus SEPA Migration Plan.
4. Administer the Unique Creditor Identification Code.
5. Provide customer support in cooperation with other stakeholders e.g. •••/CCCI, etc with the preparation of handouts, leaflets, guidelines of software packages, mandates, etc.
6. Identify and present to banks SEPA CSM compliant infrastructures. Each bank will choose the infrastructure according to its own needs.
7. Provide overall bank coordination and support.
8. Lobby and communicate with other key bodies (Consumers Association, OEB, CCCI, etc).
9. Market research in the area of payments.
10. Look into the legal aspects regarding SEPA such as:
 - The Mandate according to SEPA Direct Debit Scheme.
 - Mandates, outside SEPA Direct Debit Scheme, to be signed between Debtor/Debtor Bank and Creditor/Creditor Bank.
 - Adherence agreement with the Scheme Management Entity.

3.3.4. Role of Banks

1. Active participation in the implementation of the Cyprus SEPA Migration Plan.
2. Create a SEPA project within their own Group to ensure successful transition to SEPA by doing the following:
 - Reassess the strategy regarding payment services based on SWOT and impact analysis
 - Evaluate the financial impact of SEPA and planning for the future
 - Launch new products for credit transfers and direct debits based on SEPA Rulebooks
 - Define new ways of executing payments
 - Change infrastructure to comply with SEPA instruments
 - Select the Clearing and Settlement Mechanism (CSM) to process payments of SEPA schemes
 - Educate staff for SEPA
 - Assist and drive customers to adopt to new payments instruments
3. Meet the deadline of 1st January 2008 by implementing SEPA products.

3.3.5. Role of Users of Payment Services

Users of payment services in addition to public administrations include corporate, merchants, SMEs and consumers. The users of payment services must be persuaded that the new SEPA payment instruments will bring value and convenience and must be encouraged to migrate step by step to, and/or adopt new SEPA instruments as they become available.

The success of SEPA depends on the users of payment services for without their co-operation, commitment and involvement in the national community implementation programmes, SEPA will fail. Therefore in order to achieve this, the various user groups and their respective Associations and Federations apart from becoming early users must take action as follows:

1. Corporates & SMEs need to interface to new systems and for many, build additional infrastructure components to become SEPA compliant.
2. Merchants will have to interface to new systems and for many, build additional infrastructure components to become SEPA compliant while in addition they will face changes to their terminals, with new card acceptance applications and protocols.
3. Federations and Associations of the corporates, merchants and SMEs namely Cyprus Employers and Industrialists Federation (OEB), the Cyprus Chamber of Commerce and Industries (CCCI) and the Pancyprian Organization of Shopkeepers and Artisans (POVEK) must communicate and encourage their members and affiliates to redirect their payment services to SEPA. Their involvement in the implementation period is also essential.

4. The Cyprus Consumers Association will need to inform the consumers about the SEPA products and encourage them to migrate to IBAN and BIC usage for their payment services.

3.4. SEPA Project Organisation

In order to align decision makers and implementers across Cyprus Banking Community, a project organisation structure must be set-up to manage the Cyprus SEPA Migration Plan.

The project structure is the following:

1. The National SEPA Steering Committee (NSSC) is the highest decision-making body with overall responsibility to compile, monitor and support the implementation of the Cyprus SEPA Migration Plan. The Core NSSC will be composed of 5 members and chaired by the representative of the Central Bank of Cyprus while the Extended NSSC will be composed of 12 members. Members of the NSSC will be Senior Executives as representatives of the following bodies:

Number of seats	Bodies represented in NSSC
	Core NSSC
1	Central Bank of Cyprus
1	Ministry of Finance
2	ACCB / Commercial Banks
1	Commissioner of the Authority for the Supervision and Development of Cooperative Societies
	Extended NSSC
1	Ministry of Labour /
1	Ministry of Commerce, Industry and Tourism
1	ACCB / Commercial Banks
1	Association of ex-International Banking Units (IBU)
1	Cyprus Employers and Industrialist Federation (OEB)
1	Cyprus Chamber of Commerce and Industry (CCCI)
1	Cyprus Consumer Association
12	

2. The Programme Office

A Programme Office will be set up which will be managed by a qualified individual (Programme Manager) appointed by the National SEPA Steering committee and supported by an administration staff. The Programme Manager will have overall responsibility to monitor and secure implementation of the Cyprus SEPA Migration Plan. The Programme Manager will report to the National SEPA Steering Committee.

The main functions and responsibilities of the Programme manager will be the following:

- Preparation of the detailed Cyprus SEPA Migration Plan
- Management of project risk based on proper and continuous analysis
- Monitoring, through members of the implementation group the progress at the various stakeholders involved in SEPA in terms of the introduction and application
- Interbank agreement on the substance of the EPC rulebooks and the Card Framework in the way in which they are to be implemented in Cyprus in co-operation with ACCB as the representative of the Cyprus Banking Community to the EPC.
- Getting regular information and consultation support from ACCB and provide feedback on the status of the project (copy of the progress report)

3. Implementation Groups

All involved parties represented in the National SEPA Steering Committee must organise a SEPA implementation project for Credit Transfers and Direct Debits in their organisation. Project managers of these internal projects will form the **Implementation Group for Credit Transfers and Direct Debits** and will act in close co-operation with Program Manager to whom they will report.

For the Cards Framework, a second Implementation Group will be formed the **Implementation Group for Cards Framework**, to secure adherence to SEPA.

4. Communication Project Manager

Over and above a **Communication Project Manager** must be appointed by the NSSC, who in close co-operation with the Programme Manager will develop the Communication Plan. The Communication Plan must be approved by the National SEPA Steering Committee. Following the approval, the Communication Project Manager will make any effort for successful implementation of the plan.

5. The ACCB Payments Advisory Committee

ACCB, being the Cyprus Banking Community representative in EPC, will continue to provide consultation support and secure the proper information flow from and to EPC.

The ACCB SEPA Payments Advisory Committee is the consultative body, responsible for the definition of the policy and strategy for all issues relating to payments for the ACCB members.

The following sub-committees support the ACCB SEPA Payments Advisory Committee:

1. SEPA Credit Transfers and Direct Debits
2. Cards Framework
3. Legal framework
4. SECA
5. AML Committee

See Appendix B for SEPA Project Organization Chart

3.5. Project Funding

The funding of this project will have to be handled by the National SEPA Steering Committee.

3.6. Project Risks

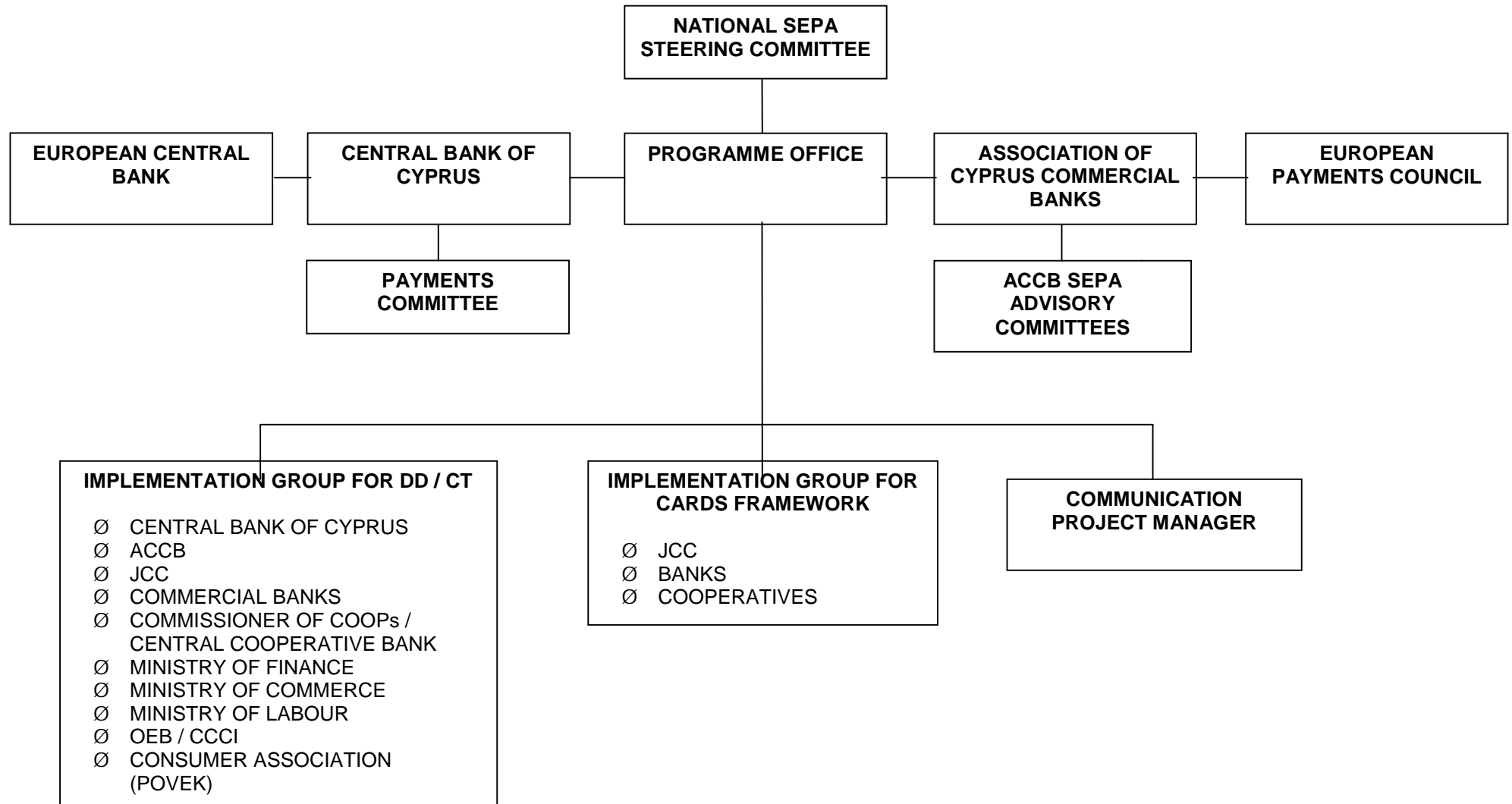
Complexity, size and strict deadlines are risk factors that may affect the success of the project.

The SEPA project runs in parallel with other major and important projects with strict deadlines like Euro, Target2, AML and Basle II and this fact adversely affects the capacity of all involved parties.

As soon as the Programme manager is appointed, a risk analysis must be done so as to develop the risk management plan.

APPENDIX A**Cyprus SEPA Migration Plan - Credit Transfers / Direct Debit / Cards**

ACTIVITIES	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q4 2010	PARTIES ENGAGED
Phase 1: Preparation of Cyprus SEPA Migration Plan																		
- Drafting of the implementation Plan																		ACCB - Payments Committee
- Approval of Implementation Plan																		Banks / Other Stakeholders
- Consultations with all players and stakeholders																		Banks / Other Stakeholders
- Set-up of Project Organisation																		National Steering Committee
Phase 2: Preparation & Implementation of SEPA products for 2008																		
- Examine / explore options																		Banks / Corporates / SME
- Development																		Banks / Corporates / SME
- Testing																		Banks / Corporates / SME
- Implementation																		Banks / Corporates / SME
- Monitoring & Control																		National SEPA Steering Committee (Programme Manager)
- Communication																		National SEPA Steering Committee (Communication Manager)
Phase 3: Migration of National Schemes by 2010																		
- Drafting and Approval of National Migration Plan																		National Steering Committee
- Monitoring & Control																		National Steering Committee
- Communication																		National Steering Committee

APPENDIX B**SEPA PROJECT ORGANISATION CHART**

APPENDIX C

BACKGROUND INFORMATION

The introduction of Economic and Monetary Union and the Euro laid the foundations for the development of an integrated European market for goods and services and improved efficiency, concepts which have been enthusiastically re-affirmed in the Lisbon Accord of 2000. The European Commission (EC) and the ECB considered the Banking Community as the industry responsible for the development and implementation of a common payments infrastructure.

The cost of putting in place such an infrastructure will be huge (implementation cost for banks alone were estimated to be €0.5 - €5 billion¹ and the loss of revenue could be €13 - €29 billion²). Studies show that the current fragmented nationally based payment systems cost the member states around 2-3% of their GDP. The Commissions' initiative will focus on electronic payments as an alternative to expensive cash. Modern electronic payments are recognised to stimulate consumer spending and economic growth. Best practices show that modernization and increased use of more cost-effective services would create economies of scale and could half the average cost of executing payments over a period of ten years. If for example, the use of cash would be reduced to the level of countries with the lowest usage, this would generate a surplus of €5,3 billion. Having the above in mind, banks have recognised the importance of the payments project and in spring 2002 they reacted with the publication of the White Paper "Euro land: our Single Payments Area", which described the required change programme as "The Single Euro Payments Area – SEPA". Thus "SEPA" was born.

SEPA will be the area where citizens, companies and other economic stakeholders will be able to make payments in Euro within the European Union whether between or within national boundaries under the same basic conditions, rights and obligations regardless of their location.

The European Payments Council (EPC), a new self-regulatory payments body, was established in June 2002 to design, specify and monitor the implementation of the SEPA. The governance structures of EPC, reviewed in 2004, were supported by the ECB, which has observer status in all EPC working groups and the Plenary.

Monitoring of EPC work on a more political level takes place through the framework of the ECB Contact Group on Euro Payments Strategy which meets at least twice a year and involves the European Commission and representatives of the Eurosystem. In addition, quarterly briefing meetings are held with Commission representatives.

EPC reviewed its initial White Paper for SEPA dated 2002 and transformed it into a Roadmap for 2004 to take into account observations from the European Central Bank and political and regulatory developments at the side of the European Commission.

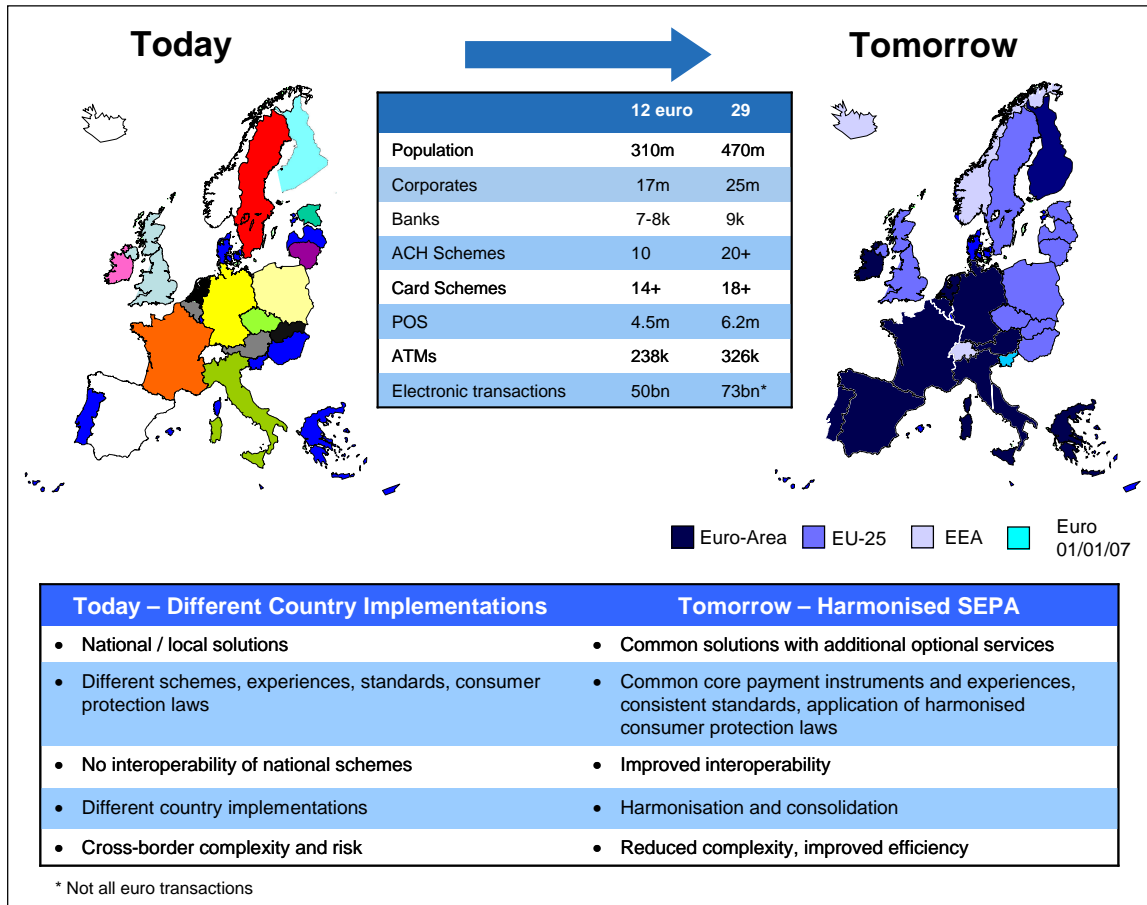
According to EPC's regulations, SEPA will be adopted by all 25 European Union (EU) member states plus Switzerland, Norway, Iceland and Liechtenstein and will be put into

¹ BGC: Global Payments 2006

² CapGemini: "World Payments Report 2005"

effect by 2010. It will go through an adaptation period of three years (i.e. from the 1st of January 2008 until the 31st of December 2010), whereby both SEPA products and the existing national processes will be able to co-exist and operate alongside. From the end of 2010 and onwards, full migration must be achieved.

With these decisions, the EPC has accomplished the vast and complicated task of developing, under enormous time pressure, pan-European payment solutions that are workable for over 7.500 banks and provide the necessary flexibility to respond to the varying needs of 450 million citizens and of 20-25 million corporates of different sizes.



The timely creation of SEPA materially depends on the removal of legal obstacles at a national and European level. As such, the European Commission's goal of creating a single, uniform legal proposal for payments within the EU single market can be achieved through the proposed "Payment Services Directive". The Directive is in progress and is expected to be approved by the European Council and Parliament within 2006 or early 2007.

In line with the primary deliverables spelled out in the EPC Roadmap, the European Banking Industry finalized on the 8th of March 2006 a **set of 4 fully fit-for-purpose European Payments Schemes covering Direct Debits, Credit Transfers, a Framework for Card transactions and a Framework for Cash**. These schemes provide a sound basis for the development of competitive bank products as well as the necessary flexibility to tailor those products to specific user needs. A detailed description

and analysis of the scope and content of each scheme is found in the respective Rulebooks (refer to References).

EPC has also delivered a Framework for the Evolution of the Clearing and Settlement of Payments in SEPA, separating the governance and management of the SEPA payment schemes/frameworks from their operation by service providers and infrastructures and thus allowing the open competition and the creation of the necessary SEPA “reaches”.

At the same time, the consultation process led EPC to draw a number of observations:

- That the schemes as developed by the EPC are not to be equated with the final product propositions that customers can expect as the latter will remain the responsibility of individual banks;
- That customer propositions will not degrade and product propositions will evolve with time in response to competition;
- That the schemes have been designed to be capable for evolution to permit the development of features and improvements to satisfy future needs;
- That the use of UNIFI (ISO 20022) XML standards would be recommended also for use in the customer-to-bank space.

The schemes have been designed to be capable for evolution to permit the development of features and improvements to satisfy future needs. For example:

1. EPC foresees the likelihood of a progressive reduction in the average credit transfer time cycle, **leading to a potential reduction in the maximum execution time permitted.**
2. EPC foresees the incorporation of such global or SEPA wide standards remittance data, which will support reconciliation and related procedures particularly of customers, engaged in commerce, that in the longer term could be extended to allow the provision **of value added services such as electronic invoicing.**
3. **Electronic Bill Presentment and Payment (EBPP) and electronic signature** could be examples of such future improvements.

The EPC also plans to work on the following projects:

1. The Scheme Management Model
2. Phase 2 of SEPA Direct Debits. To cover amongst other the following:
 - The value limit (will be defined during 2006)
 - An additional optional process for mandate submission through the debtor bank
 - Support for business-to-business direct debits
 - The inclusion of features such as electronic signature
3. SEPA Cards: The next steps for standards
4. Credit Transfers: The preparation of a standardized remittance data field to aid reconciliation.
5. The position paper for M-Payments and E-Payments

Once implemented, SEPA will create the conditions for enhanced competition in the provision of payment services. It will also generate through harmonization, more efficient payment systems, which will deliver tangible benefits for the economy and society as a whole. Furthermore, the Euro currency will be systematically strengthened by being underpinned with an integrated payments environment.

APPENDIX D

CREATING THE RIGHT ENVIRONMENT FOR SUCCESS

EPC Recommendations

1. Acceptance of SEPA Scheme Rulebooks

EPC is still working on the SEPA programme under a strict project management to maximise the efficient use of the time available to prepare for the 1st January 2008 deadline. Timelines and deliverables were set very carefully to ensure that banks and users would be given enough time to prepare for implementation.

The Banking Community and all involving stakeholders, in order to ensure that they will move rapidly to implementation of SEPA must accept closure on the content of the Credit Transfer and Direct Debit schemes and the Cards Framework as per the EPC Plenary decisions of the 8 March 2006, taking into consideration the additional features to be addressed later this year.

2. Consistent and positive communication to promote SEPA implementation

EPC asks that public authorities communicate consistent and positive messages designed to create the momentum and support necessary to drive forward the SEPA programme. To promote readiness for SEPA it should be ensured that public authorities – in their communication - support the SEPA Schemes developed by EPC and encourage timely adoption by all stakeholders (i.e. Banks, Central Bank of Cyprus, Clearing and Settlement Mechanisms, Federations and Associations of Consumers, Merchants, Corporates, Public Authorities, etc).

EPC and national banking communities are currently designing comprehensive communication campaigns to advance SEPA implementation. EPC encourages public authorities to bolster these efforts by endorsing the SEPA solutions delivered by EPC. It would furthermore be of great benefit to the project if the communication material to be produced by EPC would be allowed to use the EU logo.

3. Timely creation of the necessary legal framework

The regulatory project of the Payments Services Directive presently on the table by far exceeds the scope required for SEPA.

In the areas of credit transfers (EU Directive 97/5/EC on credit transfers) and card payments (cf. Commission Recommendation 97/489/EC concerning transactions by electronic payment instruments), there is already sufficient relevant legislation available. For SEPA, the priority lies in developing legislation that describes a harmonised set of customer rights and obligations in the context of pan-European direct debit allowing for the account number to have primacy over name when crediting accounts. EPC therefore strongly endorses a limitation of the scope of this regulatory project to those matters that

are really needed for an improvement of payment transactions in the EU's internal market. This would facilitate compliance with the timetable for the launch of the European direct debit scheme in the year 2008.

4. Public administrations as launching customers

To boost initial demand for the SEPA schemes, EPC invites the Commission to look at means for public administrations to become launching customers and to publicly acknowledge that, from 1st January 2008 onwards, they will issue and accept SEPA scheme compliant payment instructions.

This idea is fully supported by the 4th Progress Report of the European Central Bank with respect to SEPA, which describes those public administrations as launching customers of the SEPA schemes would not only set a trend-setting example with respect to the adoption of SEPA, but would greatly contribute to generate the critical mass of transactions necessary to make SEPA a success. SEPA was included as an implementation project on the agenda of the Economic and Financial Council (ECOFIN).

5. Provide for measures to support the repositioning of cash

The results of the various studies that have been undertaken so far clearly show that non-cash payment instruments are more economical for society, that e-purse is always more economical for society than cash, or that cash is definitely the most expensive payment instrument to operate from a societal point of view (total costs consistently estimated around 0,4% to 0,6% of GDP). The Commission should in this respect contemplate measures aimed at "repositioning" cash. Effective competition between the three pan-European payments instruments will materialize only if the Commission would usefully eliminate the barriers preventing the cost of cash to be transparent to customers. As the cost of cash is being imperfectly externalised to actual users, de facto usage of cash is therefore cross-subsidized by other bank revenues. This contributes to burdening the pricing of other bank services.