



SPANISH SEPA MIGRATION PLAN

SEPA Migration Monitoring Commission

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Version 1

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in its meeting of 17 May 2007*

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1. Introduction

1.1. Definition of the SEPA Concept

The creation of the Economic and Monetary Union and the introduction of euro banknotes and coins have been decisive milestones for the existence of the single market in the EU. Nonetheless, a situation of fragmentation still exists in retail payments that has ultimately impeded the effective culmination of this objective.

The **Single Euro Payments Area (SEPA)** was set up to mitigate this situation. The SEPA will be an area in which citizens, companies and other economic agents can make and receive euro payments within Europe with the same basic conditions, rights and obligations, regardless of their location and their cross-border or domestic processing.

The SEPA will involve a new European retail payments scenario characterised by a greater level of integration. Euro operations will be subject to a set of uniform standards, rules and conditions and will consequently be processed as easily, fast, safely and efficiently as operations within national markets are currently processed.

The creation of SEPA not only aims to improve the efficiency of the processes geared towards executing payments among the different euro zone countries but also seeks to develop a common set of instruments, standards, procedures and infrastructures for all of them. This greater harmonisation will ensure that there are no differences between national and cross-border payments and will provide considerable benefits for the economy and society as a whole in line with the political objectives set in the Financial Services Action Plan of the Lisbon Agenda of 2000.

Though the different public authorities are assigned an important role in ensuring the implementation of SEPA, it is mainly the European banking industry that has to ensure the necessary advances are made through self-regulation. In order to achieve this goal, the European banking sector created the **European Payments Council (EPC)** in 2002 as the community's representative body whose decisions are accepted by the institutions that operate within the SEPA environment.

In order to achieve the above-mentioned targets, it is firstly necessary to carry out the transformation of national payment systems that should therefore do away with their local character¹. This circumstance will facilitate the processes of consolidation of the payment market within the Euro Zone although, in order to do so, it will be crucial that the economic agents choose to use the new instruments and conditions instead of the preceding ones.

Hence, the true integration of retail payment systems in Europe will be completed in three phases. These include: an initial design and preparation phase, which will be followed by an implementation or deployment phase, both of which will fall under the responsibility of the banking sector in a wide sense, and finally, a third migration and replacement phase (and coexistence with previous processes and instruments) whose progress will, to a great extent, depend on the behaviour and the decisions taken by end users of payment services.

Despite being a task of great magnitude and complexity, subject to demanding deadlines and a lot of uncertainties, reaching a Single Euro Payments Area is of capital importance to further advance towards

The SEPA project was set up to overcome the current situation of fragmentation in retail payment processes within the EU.

SEPA relies on the development of a series of common instruments, standards, procedures and infrastructures in order to improve the efficiency of payment execution processes among the euro area countries, so that this greater harmonisation ensures there are no differences between national and cross-border payments.

¹ Notwithstanding the above and focusing on local specific conditions, it will be possible that such systems maintain certain options or particular instruments.

The scale and complexity of the SEPA project makes the drawing up of a National SEPA Migration Plan necessary.

financial integration. This is why SEPA is not just another strategic option but an unavoidable challenge.

The obvious ambition of an initiative of this nature makes it a complex project that requires a well defined strategy. It has been, therefore, necessary to draw up a National SEPA Migration Plan in order to set the main milestones to be reached by the Spanish banking community and thus facilitate an orderly transition toward the new scenario.

This Plan will likewise provide transparency to the decisions adopted and finally, it will serve as a control tool that will allow verifying the compliance with the targets set up for each phase.

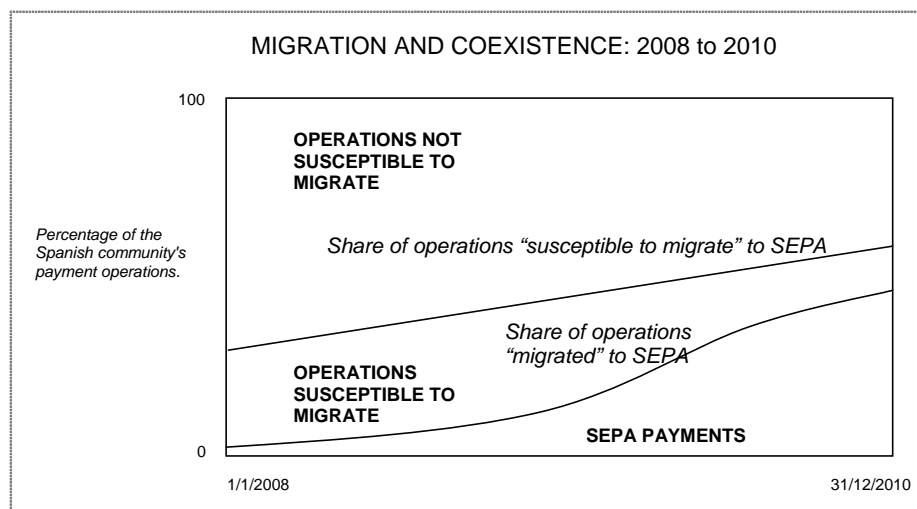
This document is a response to this objective and has been drafted by the SEPA Migration Monitoring Commission pursuant to the organisational framework set forth in Section 2 hereinafter.

1.2. Scope of the Transition to SEPA

The transition to SEPA will take place between January 2008 and December 2010. During this period, the Spanish banking community will direct its efforts to both providing assistance to customers concerning their needs as a result of the migration, and expanding the perimeter of operations that can be potentially migrated.

One of the first responsibilities arising from accepting the challenge of migrating operations is to determine the set of operations that can be potentially migrated. This is one of the targets sought by the National Migration Plan insofar as a specific group of payment operations is identified as susceptible to migrate to SEPA as of 2008. Simultaneously, as indicated in broad terms in the following chart, the Spanish banking community will continue working to expand this subset of operations, thereby reducing the number of operations not included within SEPA.

The Spanish banking community will make every effort to increase the number of operations "susceptible to migrate" as well as the number of "migrated" operations.



The Spanish banking community will direct its efforts to provide assistance to customers' needs arising from the migration, as well as to expand the number of operations that can be potentially migrated during the **three years in which the migration phase has been discretionally set, from January 2008 to December 2010**. Both objectives require existing operations to be carefully classified. This task has already been completed by the Spanish banking community and its result is schematically summed up in the following chart:

The Spanish banking community is committed to meet the objectives set in the SEPA project for January 2008 for both credit transfers and cards.

For the third of the instruments considered in SEPA, payment cards, the EPC chose to develop a general **framework** for the adaptation of card schemes instead of creating a new Pan-European instrument.

These achievements have mainly been reached by the European banking industry through the EPC's different working groups. It has been capable of defining new technical and operating standards, as well as operating and business rules for the schemes and infrastructures.

During this stage, the basic guidelines of the Communication Plan needed for a project of these characteristics have been agreed upon. It will serve to make up for the limitations detected and to channel the needs that will undoubtedly arise during the development of the plans and projects over the coming months or years².

Due to market forces and network effects, it is expected that these instruments will become widespread and will lead to an integration of infrastructures, so that efficiency gains will be effective by 2010.

According to the initial Plan, modifications to processes, the testing of its different aspects, the certification of technical and operating capabilities, and the verification that the Spanish community meets all the requirements to be considered as integrated into SEPA will take place during phase 2 (**Implementation and Deployment**). Hence, credit institutions will make the necessary developments in order to place at the economic agents' disposal some of the new payment instruments in **January 2008**, date by which the adaptations reflected in the general framework for payment cards should also have been started.

On the other hand, the entry into operation of Pan-European direct debits requires the prior entry into effect of the future Payment Services Directive.

The Spanish banking community is committed to meet this milestone both for credit transfers and for cards. However, in the case of direct debits, Spanish financial institutions consider that the availability of Pan-European direct debits requires the prior entry into force of the future **Payment Services Directive (PSD)**³. Only then will there be solid uniform legal grounds, which are essential to ensure that any operation made using this instrument enjoy legal security and a wide-ranging Pan-European scope ("*reachability*"). Without prejudice to the fact that SEPA direct debits will not be offered to customers from 1 January 2008 but at a later date that has yet to be set⁴, the Spanish banking community will carry on with the technical preparations required to develop this instrument.

Phase 3, involving the **migration and coexistence** with previous instruments, will begin once bank customers decide to use SEPA payment instruments instead of those they have been using. A three-year period up to the end of 2010 has been discretionally set during which the migration will be carried out, reaching, if the conditions are as expected, a critical mass of operations. The replacement process will then be irreversible.

The specific amount of SEPA payments for 2010 has not been defined (each national community has its own particular features), but it is expected that structural and systematic changes will have been made by then that will allow to verify the progress made in implementing SEPA.

² The SEPA Portal set up by the Spanish banking community in conjunction with the Banco de España is a key element of this Communication Plan. This Internet website (www.sepaesp.es) offers links to the information available about the SEPA project.

³ This opinion is in line with the statements made by the EPC and the European Credit Sector Associations in the letter to both the European Commission and the European Central Bank dated 6 March 2007.

⁴ Depending on the date on which the transposition into Spanish legislation of the Payment Services Directive entries into force.

1.4. Conditioning Factors and Particular Features of the Migration Process

The success of the SEPA migration process will depend on the satisfactory resolution of a series of legal and economic conditioning factors...

The success of the SEPA migration process is subject to a series of factors whose evolution could have an impact on the initiative's development. These conditioning factors could mainly concern the legal framework or the business feasibility.

Among the **legal conditioning factors**, the most important today is the lack of a uniform legal framework applicable throughout the eurozone. In principle, the new Payment Services Directive seeks to put an end to the present legislative disparities concerning this matter. However, delays in its drafting process, as well as the uncertainty about when it will be definitively approved and transposed into the national legislations affected, have constituted a certain slowdown.

... and will require taking into account certain peculiarities of the Spanish case.

Regarding **economic conditioning factors**, the new SEPA instruments have some peculiarities in the way they operate that, to a greater or lesser extent, could affect their widespread use. On the one hand, these include the interchange fees issue concerning both their level and the way they are applied. On the other, regarding customer fees, the Spanish practice has supported the notion that whoever introduces an operation into the system should bear the costs. This approach is different from the one chosen for SEPA payments, which promotes the sharing out of costs between the issuer and the beneficiary⁵.

The Spanish payments scenario additionally has some **peculiarities and specific aspects** that have to be taken into account when planning the migration to SEPA. The issues to be tackled include, among others, the requirement related to balance of payments reporting and the differentiated processing of certain operations like credit transfers for payroll and pension payments or those exceeding an amount of 50,000 euros.

The ultimate success of the migration will greatly depend on the degree of acceptance that the new SEPA products gain among the customers of financial institutions.

Lastly, it cannot be forgotten that the ultimate success of the migration will greatly depend on the degree of acceptance of the new SEPA products among the customers of Spanish financial institutions. This will vary depending on their ease of use and the convenience that such instruments will provide. The decisions concerning the migration in other countries will likewise be decisive to ensure the reachability of any possible counterparty.

2. Organisation of the Migration: Structure

The Payment Systems Working Group is the highest-level Spanish forum where institutions discuss strategic issues concerning payment systems.

Given the SEPA project's complexity and implications, European credit institutions decided to create a formal structure of working groups within the EPC, a vehicle through which they could properly deal with the different aspects that have to be considered.

In Spain, the **Payment Systems Working Group**, which was set up in 2002, is the highest-level forum where strategic issues concerning payment systems are discussed from an overall standpoint. This group, chaired by the Banco de España, comprises representatives of the credit institutions and their respective associations.

In order to tackle the SEPA project in an integrated manner in Spain, the aforementioned Group decided to set up two working groups: **the SEPA**

⁵ However, for credit transfers, the Spanish community has already introduced the possibility of sharing out costs between both ends. It is true, nonetheless, that it has as yet a very limited scope, but the community has already stated its intention to move forward along this path.

Migration Observatory (the Observatory) and the **SEPA Migration Monitoring Commission** (the Commission).

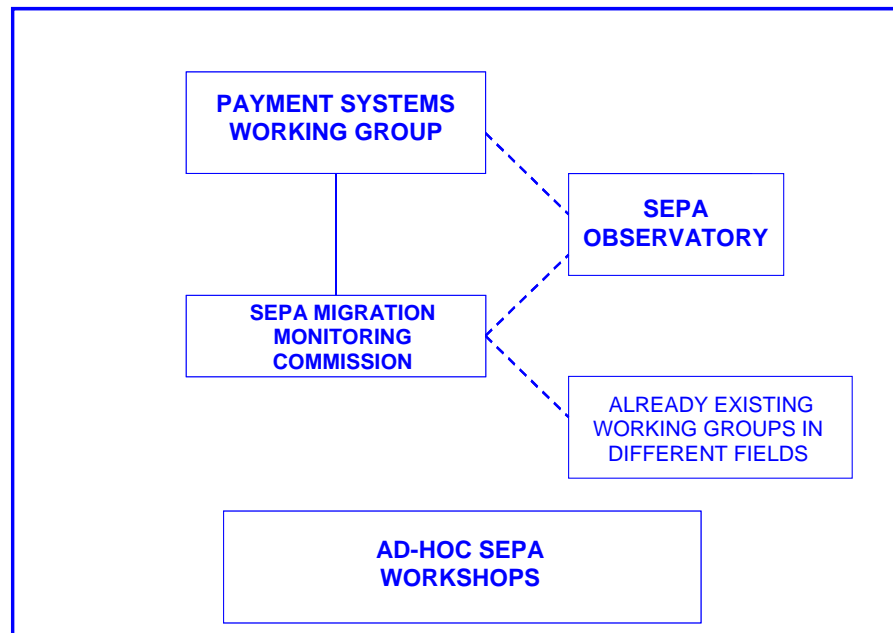
The Observatory's main mission is to stand as a platform for the interchange of information among all the stakeholders involved in the process of constructing SEPA in Spain⁶. The Commission's⁷ main aim is to design the National SEPA Migration Plan, as well as to monitor its subsequent implementation.

In addition, the aforementioned Commission will be in charge of carrying out any related tasks it may be entrusted with by the Working Group or that may arise from the Observatory's deliberations.

This scheme is complemented by a series of **Special SEPA Workshops** organised by the Banco de España, whose aim is to provide maximum transparency to the project and to raise awareness about its importance and implications. These workshops are geared towards credit institutions and will continue over time in order to tackle all the relevant issues that may arise during the transition towards SEPA.

In order to tackle SEPA migration in an integrated way, the "Observatory" and the "Monitoring Commission" were set up.

Organisational Scheme of the SEPA Project in Spain



Independently of the cooperation commitment and the support of the Banco de España to carry out SEPA, it should not be forgotten that this project is mainly the responsibility of the Spanish banking industry, which has jointly decided upon the main guidelines of the SEPA transition in Spain through the necessary interbank cooperation. This cooperation is structured through the Spanish banking associations - AEB, CECA and

The basic guidelines for the SEPA transition are the responsibility of the banking industry...

⁶ As it is shown by its multidisciplinary composition with the participation of the national banking associations, the different payment processing infrastructures (Iberpay and the three card networks: Euro6000, ServiRed and Sistema 4B), as well as representatives of different end user groups, including the Public Administrations. The Banco de España chairs the aforementioned Observatory and also acts as its Secretariat.

⁷ The Commission is made up of representatives of the Spanish banking industry (through its respective associations), Iberpay, the Spanish card networks and the Banco de España. It is jointly chaired by one of the Spanish banking community's representatives in the European Payments Committee's (EPC) Plenary and by the Banco de España, which is also in charge of the Commission's Secretariat.

UNACC -, as well as through the different infrastructures, Iberpay and the card networks, which will attempt to ensure their member institutions take part in the SEPA transition process properly.

However, despite this overall responsibility of the Spanish banking industry, **the ultimate responsibility concerning the necessary developments at each institution and their decision about whether or not to join the new schemes lies with each financial institution.** Such decisions will therefore be taken within the private sphere on the basis of business decisions and aspects related to the specific way institutions want to manage and spread the SEPA aims. These issues should be reflected in each institution's migration plan and are therefore beyond the scope of this Migration Plan.

Lastly, despite being each institution's ultimate responsibility, some issues will require that the decisions taken meet the same criteria and comply with the final objective, thereby highlighting the importance of the necessary interbank cooperation.

... However, the ultimate responsibility concerning the necessary developments at each institution and their decision about whether or not to join the new schemes is the individual competence of each financial institution.

3. Migration of Payment Instruments⁸

3.1. Credit Transfers

The new SEPA instruments are generally similar in their functioning to their Spanish equivalents. However, despite specific differences that are scarcely relevant, there is a key difference arising from traditional customs and practices in Spain. This could constitute an obstacle to the migration of part of the credit transfer operations, as mentioned in Section 1.4 above. More specifically, this has to do with the widespread use of the 'OUR' clause as the charging practice in Spain⁹. It is however proposed that the new SEPA credit transfers should use the 'SHARE' clause, which would oblige the Spanish banking system to evolve towards a new shared cost model.

Nonetheless, with the entry into force of the Payment Services Directive¹⁰ it is foreseeable that this factor will no longer remain a distorting element for the migration to SEPA.

The migration strategy for this instrument faces two additional challenges: first, the exclusive use of BIC and IBAN codes for the exchange of information and second, the need to combine the migration with the existing requirements in Spain for different reasons.

Despite the fact that the Credit Transfers *Rulebook* sets forth a maximum processing time of 'd+3', the Spanish community has additionally decided to maintain the credit transfer process within current parameters, which are more demanding.

The Spanish community has decided that the credit transfer process in Spain should continue being performed according to the current cycles, which are more demanding.

⁸ The percentages mentioned in this chapter solely refer to the volume of credit transfers and direct debits cleared at interbank level. The data are taken from Iberpay statistics for the whole of 2006.

⁹ The costs of the operation are charged to the customer that orders the transfer, while with the SHARE option, each party (ordering party and beneficiary) bears its own costs.

Chart of Volumes broken down by Types of Credit Transfers processed in the SNCE in 2006

	Operations		Percentage of total	
	Volume	Value M€	Volume	Value
Residents Credit Transfers	296,040,162	685,296,206	97.18	95.27
Ordinary, Basic and Normal	149,026,427	515,839,621	48.92	71.71
Payroll and Pension payments	123,168,334	141,433,521	40.43	19.66
Tax reimbursements	20,090,538	14,375,172	6.60	2.00
Payment Orders	3,754,863	13,647,892	1.23	1.90
Non-residents Credit Transfers	6,955,756	10,073,045	2.28	1.40
Ordinary, Basic and Normal	2,089,071	8,530,332	0.69	1.19
Payroll and Pension payments	4,782,325	1,383,418	1.57	0.19
Payment Orders	84,360	159,295	0.03	0.02
Other Credit Transfers	1,626,479	23,987,496	0.53	3.33
Pension Plans	282,315	1,996,142	0.09	0.28
Investment Funds	198,363	7,706,115	0.07	1.07
In Cash	1,145,801	14,285,238	0.38	1.99
TOTAL	304,622,397	719,356,747	100.00	100.00

Chart of Types of Credit Transfer Operations

Ordinary, Basic and Normal Credit Transfers	<i>They are differentiated depending on the limits on the amounts and the criteria for allocating costs.</i>
Credit Transfers for the Payment of Payrolls, Pensions and Tax Reimbursements	<i>Credit Transfers with the underlying purpose the name indicates.</i>
Payment Orders	<i>Any credit transfer in which the beneficiary's Bank Account Number is incomplete or not formally correct.</i>
Pension Plan, Investment Fund and Cash Credit Transfers	<i>Credit transfers made between accounts of the same holder with the underlying purpose the name indicates.</i>

Assuming the aforementioned considerations and taking into account the different types of credit transfers in Spain, their particular characteristics and their order of magnitude¹⁰, as shown in the following chart, the most reasonable strategy for the migration could be as follows:

(a.) During a **First Stage**, 50% of the credit transfers (the so-called Basic, Normal and Ordinary credit transfers) will be ready to migrate to the new SEPA product.

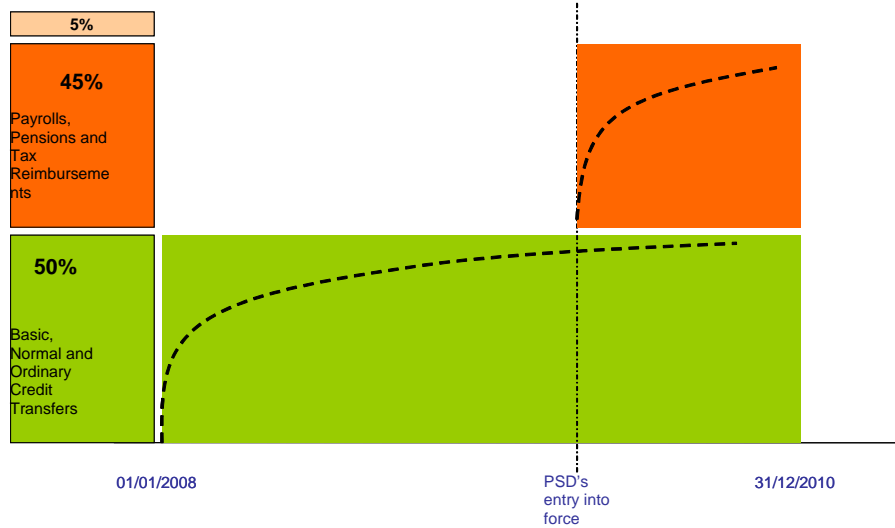
(b) During a **Second Stage**, the Spanish financial community will focus on the migration of Credit Transfers for the payment of Payrolls and Pensions, as well as those corresponding to Tax Reimbursements, after making the relevant adjustments.

If the approach set out up to this point is successfully carried out, the migration's level of success in 2010 could reach around **95%** of all the credit transfers currently being processed. Notwithstanding the above, in order to reach this figure it will be necessary to previously solve the current issue concerning reporting information requirements for non-residents' operations.

¹⁰ And assuming that credit transfers processed by means of "intra-clearing" have a similar breakdown as the rest and that, consequently, they will follow the same migration pattern as the credit transfers processed through the Spanish retail payments system (SNCE).

Migration Chart of Spanish Credit Transfers to SEPA

The level of success of the migration could reach around 95% of all the credit transfers currently being processed.



(c) Lastly, once the above-mentioned objective is reached, the best option to process a set of marginal operations (payment orders and cash transfers) that are difficult to assimilate into operations foreseen for SEPA credit transfers, will be studied. These are for the moment beyond the scope of the migration.

3.2. Direct Debits

Along with the SEPA direct debit, there will co-exist national variants. This more or less wide range of national variants should be susceptible to progressive migration.

Assuming considerations similar to the ones broached in the previous section, the most sensible policy to adopt for the migration of Spanish direct debits to the SEPA differs from the one set out for credit transfers. In this case, the migration inevitably requires the acceptance of the customers of the system's participating institutions. This implies that, the new standard product, the SEPA direct debit, will co-exist with a more or less wide range of national variants that should be susceptible to progressive migration.

Chart of Volumes broken down by Types of Direct Debits processed in the SNCE in 2006

	Operations		Percentage of total	
	Volume	Value M€	Volume	Value
Utility Bills	796,242,340	192,374,315	88.5%	60.0%
With detailed information	575,613,448	160,567,359	64.0%	50.0%
With summarised information	220,628,892	31,806,956	24.5%	9.9%
Credit Advances	101,906,316	127,631,179	11.3%	39.8%
Fund Contributions	1,376,580	880,102	0.2%	0.3%
TOTAL	899,525,236	320,885,596	100.0%	100.0%

Chart of Types of Direct Debit Operations

Utility Bills	<i>Debits corresponding to generally recurrent fees or payments for the supply or provision of services.</i>
Funds Contributions	<i>Direct debits in which the payer and the payee are the same person and in which there are additional limits concerning the amounts and frequency.</i>
Credit Advances	<i>Debits corresponding to legitimate credit rights held by the ordering customer over his/her debtors for specific operations of his trading or business activities.</i>

As in the case of credit transfers, it will be necessary, at least initially, to leave out of the process any type of operation that is difficult to assimilate into SEPA direct debits due to their singularity.

More specifically, the criteria to be followed in the migration in order to endeavour to maximise the success of the process are as follows:

(a) During a **First Stage**, efforts will be geared towards the "Utility Bills with Summarised Information" modality. These can be gradually migrated to the SEPA direct debit. This process will be more or less swift depending on the level of acceptance of the new product among issuers.

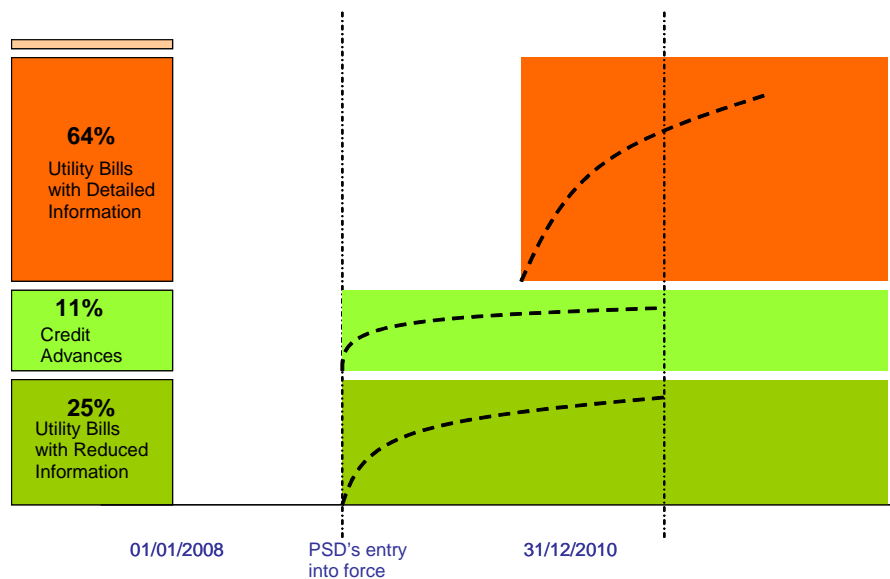
(b) During a **Second Stage**, the migration of the so-called "Credit Advances" is foreseen, which together with the operations of the first stage would amount to a total estimated share of 36%.

(c) In the case of "Utility Bills with Detailed Information", in which the credit institution has to provide the Debtor with the direct debit statement containing the details provided by the Creditor, the difficulties surrounding the migration are greater. This is why this category will be tackled with during the **Third Stage** of the migration. Efforts will be made to find a reasonable alternative for its adaptation.

Should these utility bills, up to 64% of the current volume of operations, be added to the ones above, the total level of migration would practically reach all the operations using such instruments, as can be seen in the following schematic chart.

(d) Lastly, Funds' Contributions would remain beyond the scope of this migration process given their characteristics and the limitations set out.

Migration Chart for Spanish Direct Debits to SEPA



There are outstanding issues that have to be decided upon and which will influence the migrating pace of direct debits.

The Spanish banking community reaffirms its commitment to take part in the deployment of the SEPA Direct Debit as soon as it is feasible and when the legal obstacles requiring a solid level of legal harmonisation at a European level have been removed. In the meantime, the necessary steps will be taken to be technically ready in order to reach full compliance with the SEPA standards in this field.

Once these difficulties are overcome, the total level of migration would stand close to 100% of the operations with these instruments.

Apart from the delays that the passing of the new legislation¹¹ imposes on the deployment of the direct debits, there are also a series of outstanding issues pending to be defined or decided upon that should be tackled in the near future. The most relevant of these include a practical way to guarantee accessibility to Spanish bank accounts for direct debits coming from any SEPA country ("*reachability*"), the possible implementation of an alternative procedure to manage direct debits orders ("*mandates*"), the creation of a B2B direct debit model and the use of electronic signatures.

Legal verification that existing direct debit orders will continue to be fully valid with the new SEPA Direct Debit instrument is still pending.

3.3. Cards

Spanish financial institutions start off from a situation that is close to the final objectives set within the SCF approved by the EPC.

Spanish financial institutions start off from a situation that is close to the final objectives set within the SEPA Cards Framework (SCF) established by the EPC in so far as 100% of the operations are already being processed through "*co-branding*" with VISA or MasterCard brands and the ATMs and POS installed in Spain have been open to these brands for many years. However, in keeping with the SCF guidelines, a number of adaptations will have to be tackled, such as, for instance, the generalised adoption of the EMV standard before 31 December 2010. In this regard, the situation of the migration to the EMV standard on 30 March 2007 was as follows:

	Total Units	Percentage Migrated to EMV
Cards	69,378,003	1.23%
POS Terminals	1,209,107	52.73%
ATMs	58,560	71.39%

The migration will affect all cards in circulation belonging to the three networks (i.e. Euro6000, ServiRed and Sistema 4B), as well as the existing devices. However, there are no overall plans to determine the pace at which it will take place. Each credit institution, as a card issuer as well as a provider of services to merchants or ATM owners, has or will draw up the specific plans it may deem relevant.

Each financial institution is responsible for drawing up the specific plans that determine the pace at which the migration will take place.

In addition to adopting the EMV standard, whose costs are not irrelevant, the institutions should perform the relevant communication actions to inform their customers (cardholders and retailers) of the characteristics and benefits generated by the use of the new cards, as well as by the new devices. Cardholders will have to familiarise themselves with the change in the verification method and it may eventually be necessary to update the contracts governing the use of these cards, as well as those used in the acquiring institution-retailer relationship.

The updating or replacement of all existing ATMs and point of sale terminals is likewise foreseen under the responsibility of the financial institutions that have yet to adapt themselves to the SCF. In the case of those terminals which are beyond this responsibility, it will likewise be necessary for their owners to take the relevant measures to make them compliant with the EMV standard.

In addition, institutions will jointly take part in coordinating the development of the standards included in the standardisation domains set forth in the *SEPA Cards Framework*. Its purpose is to favour a greater degree of

¹¹ The transposition into Spanish law of the future Payment Services Directive is expected to take place no later than November 2009.

interoperability on a European-wide scale, which requires joint efforts through the EPC working groups, in which Spanish cards schemes are directly involved.

As long as the necessary standards have not yet been finalised for each phase of the card operation process and the migration deadlines have not been completely defined, the institutions will have to deal with the uncertainty regarding the way products will operate in the short- and medium-term, and the consequences this entails.

Card schemes have decided to opt for maintaining co-branding with the international schemes as a way of complying with the Framework's requirements.

Card schemes have decided to opt for maintaining co-branding with the international schemes as a way of complying with the SCF requirements, although other paths may be followed in the future.

The preference for co-branding as a priority alternative in response to the requirements imposed by the SCF means that practically all the operations performed with cards will be SEPA compliant from the beginning.

In addition, Spanish schemes expect to adopt their internal bylaws, rules and regulations to the provisions set forth in the SCF.

Once the relevant testing has been conducted, each card scheme will proceed to assess its own level of preparation and self-certify its compliance with all SEPA requirements and inform the SEPA Migration Monitoring Commission thereof by means of the procedure that will be established.

4. Migration of Infrastructures

The clearing and settlement of all payment operations based on payment instruments other than cards¹² through the National Electronic Clearing System (SNCE - *Sistema Nacional de Compensación Electrónica*) only constitutes a part of the total volume of transactions cleared in Spain.

In so far as a certain number of payments take place among customers of the same institution, it is possible to perform an exclusively internal clearing process, which in practice constitutes the first step of clearing. In addition, institutions that act on behalf of other institutions in the SNCE may as a matter of fact act as clearing and settlement mechanisms among those, thereby serving as the second step of clearing beyond the SNCE's processing.

Due to their particular circumstances and concerning SEPA credit transfers and direct debits, any operation taking place in the two steps mentioned above is not subject to this Migration Plan. Each institution will design its own strategy for internal migration.

Lastly, the migration of cards and their infrastructures will likewise not be dealt with in this chapter as it has been dealt with in the previous section.

4.1. Migration of the SNCE

A first version of the Spanish SEPA Migration Plan was officially submitted to the EPC and the Eurosystem at the beginning of 2006.

During the last quarter of 2005 the different migration alternatives to SEPA were assessed both for the Spanish community and for the SNCE within the scope of Iberpay's management.

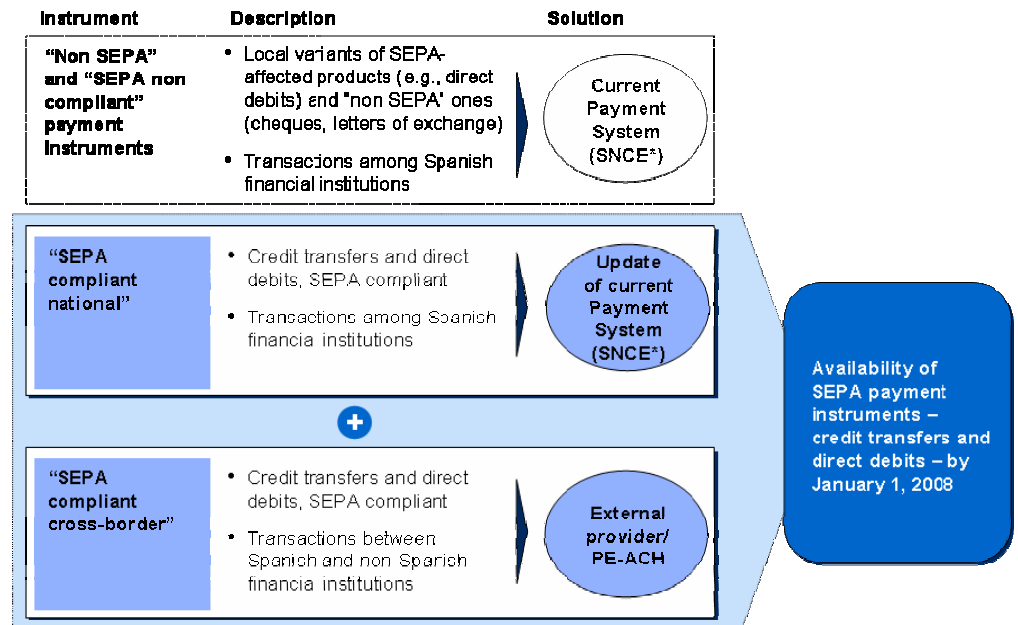
This work led to the definition of a common strategy that at the time constituted the first version of the Spanish SEPA Migration Plan, a plan

¹² These mainly involve credit transfers, direct debits, cheques and bills of exchange.

solely focused on Iberpay's evolution considering the lack of information concerning certain relevant issues.

The conclusion of this strategy was reported and presented to the EPC and the Eurosystem at the beginning of 2006 and can be summed up as follows:

Chart on the Solution Adopted for the Evolution to SEPA (January 2006)



The recent evolution of the SNCE platform has been conditioned by the objective of achieving the maximum migration of those credit transfers and direct debits that are currently being processed by the SNCE.

Since that Plan was adopted, Iberpay has been working on its implementation, which has involved starting up a large series of adaptations concerning the SNCE's functional and technical aspects.

The tactical evolution of the SNCE platform has been conditioned by the practical objective of ensuring its competitiveness in a European-wide market environment while at the same time facilitating the migration of the maximum number of credit transfers and direct debits currently being processed by the SNCE to the new SEPA products. For that purpose, the main objectives agreed upon by the system's participating institutions have been:

- a.) To implement a new technological infrastructure for the SNCE directly managed by Iberpay
- b.) To develop a new Common Services Node capable of housing the new settlement system (National Settlement System, SNL - Sistema Nacional de Liquidación), the properly adapted current applications and the new features required for SEPA and TARGET2.
- c.) To update the SNCE platform in order to allow the processing of SEPA operations among Spanish financial institutions through two new specific subsystems to process the two new SEPA instruments with a centralised multilateral exchange of operations.
- d.) To facilitate the routing and processing of cross-border SEPA operations for Spanish financial institutions associated to the SNCE that may require it and for the rest of the institutions within the SEPA's scope by means of the agreements that may be deemed suitable to enter into with other European clearing houses.

The new SEPA instruments will be cleared and settled through two new subsystems based on multilateral interchange.

The two first milestones have already been reached. Concerning the – adaptation of the SNCE platform, the voluntary testing phase will start shortly for those institutions that have advanced the furthest in their

Iberpay is considering different alternatives to ensure the necessary interoperability with other clearing and settlement mechanisms.

developments, with a view to ensure that the SEPA Credit Transfers Subsystem is fully operational by 1 January 2008. Although the implementation of the Direct Debits Subsystem was also foreseen for that date, its testing and implementation schedule is still to be reviewed on the basis of the decision that is finally taken regarding its launch date.

Concerning the search for solutions to ensure interoperability with other clearing houses and/or settlement mechanisms, several strategic options are being considered at Iberpay. Although it is too early to forecast the final scenario, the medium-term objective is to offer the SNCE institutions that may wish it the capability to both send and receive cross-border SEPA operations to any institution in the European Community with whom they may deem it suitable to enter into interoperability agreements through their clearing houses. In order to do so, the recommendations issued by the European Automated Clearing House Association (EACHA) and the STEP2 technical specifications will be taken into account if an agreement is reached with EBA Clearing.

The main features of the evolution of the SNCE Platform are summed up in the following chart.

Chart Summing Up the SNCE Platform's Evolution

SNCE before SEPA	SNCE ready for SEPA
<ul style="list-style-type: none"> ● National payment instruments (5 Subsystems) ... ● Bilateral Exchange ● Not connected to other clearing houses... ● Settlement in Target... ● Connectivity for national exchanges through proprietary protocol IP/SNCE ... ● SNL application in Banco de España's computers... ● Processing SNCE proprietary formats (flat files)... ● Central Mainframe Support with 3270 user interface 	<ul style="list-style-type: none"> ● National payment instruments and SEPA instruments (7 subsystems) ● Connected abroad for cross-border operations through SWIFT ● Multilateral Interchange (for SEPA) and Bilateral Interchange (for NON-SEPA) ● Target2 Settlement ● Connectivity through IP/SNCE protocol or through SWIFT ● Common Services Node with new SNL and centralised provision of new services (monitoring, validations, information, statistics, storage, connectivity ...) ● Processing XML file formats, in addition to SNCE file formats ● Central Mainframe Support with Web users interface

Finally, concerning legal aspects, it should be pointed out that work is under way to adapt the SNCE's legal framework. The first milestone reached in this regard was the approval of the SNCE's new Regulation, which will be updated to comply with all the aspects that may be affected as a result of the foreseen changes in common uses and practices concerning payments, the transposition into Spanish law of the new Payment Services Directive, as well as the launch of the new SEPA schemes and the way the interchange, clearing and settlement will take place on a Pan-European scale. The second milestone will be the approval of the operating rules governing the operation of the new SEPA subsystems in the second half of 2007.

Upon completion of the relevant testing phase (see Section 6), during the last quarter of 2007 Iberpay will have to assess its level of technical readiness for processing SEPA operations and it will have to report thereof to the SEPA Migration Monitoring Commission.

5. Standards

5.1. Interbank Standards

The new SEPA instruments are based on a set of XML-based open standards (UNIFI ISO 20022).

The new SEPA instruments are based on the adoption of a set of XML-based UNIFI ISO 20022 open standards. According to the provisions set forth by the EPC, the use of these standards will be compulsory for the relationships among financial institutions, and their use is likewise recommended in the customer-bank domain. The latter aims to favour the complete flow of transactions, that is to say, from the start of the transaction right up to its destination at the receiving customer's account in the most efficient and most integrated possible manner.

The use of these standards will be mandatory in the interbank domain, and is recommended also for customer to bank sphere.

In addition, a series of message elements needed to process the messages are identified in the *Rulebooks* corresponding to each instrument (in their 2.2 versions): "**SEPA core service**". Along with these, other elements are set out that may be used to provide Additional Optional Services (AOS) within the community to which they refer. For the moment, the Spanish banking community has not considered it necessary to develop AOS in Spain.

5.2. Customer to Bank Standards

The customers' active participation is crucial to ensure the success of the migration. That is why it is also necessary to tackle all the issues related to the process of generating orders, as well as those linked to the mechanisms for the reception of information from the banking institutions themselves. In this context the following key elements stand out:

The IBAN will become the code to identify accounts while the BIC will play an equivalent role for institutions.

Account (IBAN) and Institution (BIC) Identifiers

The Customer Bank Account Number (*Código Cuenta Cliente - CCC*) is used in the Spanish banking system at the interbank level as the identification element of accounts and institutions and therefore customers need not provide a specific institution identifier. As a result of the migration to the SEPA, the IBAN¹³ will become the key element to identify accounts while the BIC¹⁴ will play an equivalent role for institutions.

As an alternative to customers providing both pieces of data, the institution may, at its own discretion offer a service to obtain the IBAN from the Customer Bank Account Number and the BIC of the institution of the credit transfer's beneficiary or the direct debit's debtor. These would be differentiated services that the institution may or may not provide and that the customer may or may not request.

¹³ The IBAN (International Bank Account Number) is a standard international code to identify bank accounts.

¹⁴ The BIC (Bank Identifier Code) is an international code designed by SWIFT that allows to univocally identify financial institutions.

Payment Initiation Instruments

The Spanish banking community foresees making the necessary adjustments to accommodate current formats (paper forms, electronic banking or files for the interchange of information with customers) to the SEPA Schemes requirements.

Along the lines of facilitating the introduction of SEPA operations, it is deemed necessary that customers should have simple, well-known and easy-to-use tools like the ones currently used in Spanish standards.

This is why the Spanish banking community foresees adapting the **forms used for over-the-counter orders** to the requirements of the SEPA instruments. These new forms will be available from July 2007 in both Spanish and English, and will be voluntarily adopted by financial institutions.

Adjustment will also come about in the field of **Electronic Banking**, where the institutions will have to adapt their systems to cover the information needs that will ensure the correct processing of the operations following the SEPA criteria.

Additionally, concerning **file formats to interchange electronic information with customers** (automated reception of execution orders and sending of information about movements), the redrafting of the traditional "Notebooks" of the Spanish banking associations (AEB, CECA and UNACC) is provisionally foreseen as a temporary solution.

	Customer to Bank (C2B)	Bank to Customer (B2C)	Foreseen date for SEPA Standards Availability
Credit Transfer Orders	Notebook 34		01/07/2007
Direct Debit Orders	Notebook 19		01/07/2007(*)
Credit Advance Orders	Notebook 58		NOT NECESSARY (Use NTBK19)
Information about Operations (Statements)		Notebook 43	01/07/2007

(*) Conditional upon a decision due to the PSD's impact

The development of XML-based interfaces for information interchanges with customers is simultaneously foreseen, although the Spanish community is in favour of the development of an international standard for the initiation of payments in XML, valid for all the countries within SEPA.

6. Verification (Testing)

At a first level of responsibility, each institution should discretionally define its own internal testing plan and carry it out.

This is a very relevant section in the process of adapting to SEPA and consists in verifying the consistency of the decisions and developments made at a local level with the criteria defined at a European-wide level regarding SEPA.

To do so, a testing model has been developed that allows to check the suitability of the developments made and show the level of preparation for SEPA from the standpoint of both the Spanish community as a whole and for each of the participants that want to adhere to the SEPA Schemes.

The first step of responsibility for a suitable transition to SEPA resides within each institution. Once the relevant documents have been analysed, they should tackle the developments they deem necessary. This means that each participant will therefore have to discretionally define its own internal testing plan and carry it out.

From the standpoint of the Spanish community as a whole, the verification model will be compatible and in line with the testing model defined by the EPC.

From the standpoint of the Spanish community as a whole, the testing model will be compatible and in line with the testing model defined by the EPC through its "SEPA Testing Framework, Version 2.2" (hereinafter referred to as "STF"). Regarding the latter, each community along with its participants will have a set of operational readiness criteria and it will be each institution who will freely choose the infrastructure or infrastructures on which they wish to conduct the relevant tests.

One of the infrastructures on which the financial institutions will be able to conduct such tests will be SWIFT, which has drawn up a common programme following the principles defined by the EPC.

Iberpay has put together its own testing plan in which all the institutions associated to the SNCE will take part.

Regarding Iberpay, as the SNCE's manager, it has developed a testing schedule for the institutions that want to join the SEPA subsystems. As part of the aforementioned plan, Iberpay will determine the functioning of the new SEPA Credit Transfer and Direct Debit Subsystems and will generate the testing scenarios it may deem necessary regarding the self-assessed certification of general compliance with SEPA schemes.

This agenda will allow the institutions that pass these tests to self-certify the operational readiness for SEPA schemes at the different levels defined by the EPC in the STF (i.e. bank to clearing and settlement mechanism – CSM– and vice versa, bank-CSM-bank and bank-CSM-CSM-bank).

Upon completion of the testing phase, each institution will have to assess its own level of readiness and self-certify its compliance with all SEPA requirements. It will have to inform the SEPA Migration Monitoring Commission thereof through their associations. At that point the Spanish community will declare itself to be operationally ready for the SEPA schemes.

The schedule and action plan foreseen for 2007 are set out below:

Chart on the Testing Plan for SEPA Instruments in the SNCE

Once the testing has been conducted, each institution will have to assess its own level of operational readiness and self-certify its compliance with the SEPA Schemes.

PHASES	May 2007	June 2007	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007
1. Exchange and validation testing for SEPA operations (B-SNCE and SNCE-B; test environment; volunteer institutions)	█							
2. Exchange, validation and clearing testing for SEPA operations (B-SNCE-B; test environment; Pilot Institutions chosen)			█					
3. Exchange, validation, clearing and settlement testing for national SEPA operations (B-SNCE-B; test environment; All Institutions)					█			
4. Exchange, validation, clearing and settlement testing for cross-border SEPA operations (B-SNCE-CSM-B; Test environment; Institutions and CSM/ACH/PEACH with agreement)					█			
5. Overall SEPA Testing in Operation (B-SNCE-B and B-SNCE-CSM-B; Production environment; All Institutions and CSM/ACH/PEACH with agreement)							█	
6. SEPA Testing Programme for SWIFT (SNCE-SWIFT; Test environment)			█		█			

B: Ordering bank or beneficiary
 CSM: Clearing and Settlement Mechanism like, for instance, a clearing house
 ACH: Automated Clearing House
 PEACH: Pan-European Automated Clearing House

ANNEX - Documents and Links of Interest

Published by the EPC (accessible at www.europeanpaymentscouncil.org):

- **General**

- *"Making SEPA a reality"*
- *"SEPA Cards Framework"*
- *"Framework for the Evolution of the Clearing and Settlement of Payments in SEPA"*
- *"EPC Roadmap 2004 -2010"*

- **Technical Documents**

- *"SEPA Credit Transfer Scheme Rulebook (v 2.2)"*
- *"SEPA Direct Debit Scheme Rulebook (v.2.2)"¹⁵*
- *"SEPA Credit Transfer Scheme Implementation Guidelines (v. 2.2)"*
- *"SEPA Direct Debit Scheme Implementation Guidelines (v. 2.2)"*
- *"SEPA Data Model"*
- *"SEPA Testing Framework"*
- *"Technical Validation Subsets (v 2.2)"*

Published by Eurosystem / Banco de España (accessible at www.bde.es):

- *"La Zona Única de Pagos para el Euro (SEPA): Un mercado integrado de pagos al por menor"*
- *"Un área única de pagos para el euro: La SEPA, génesis y principales ingredientes"*
- *"El Proyecto de integración de los sistemas de pago minoristas en la UEM"*
- *"La opinión del Eurosistema sobre 'Una SEPA para las tarjetas'"*

¹⁵ A Spanish version of these documents can be found at the Iberpay website (www.iberpay.es)

Published by Iberpay (accessible at www.iberpay.es):

- *“SEPA Credit Transfer Scheme Rulebook (v 2.2)” (Spanish version)*
- *“SEPA Direct Debit Scheme Rulebook (v.2.2)” (Spanish version)*
- *Interfaz Transferencias SEPA (v. 1.3)*
- *Interfaz Débitos Directos SEPA (v. 1.5)*
- *"Plan de Evolución del SNCE hacia la SEPA"*

Other Documents:

- *“Banks preparing for SEPA” (published by the Euro Banking Association, accessible at www.ebaportal.info)*

Official Spanish SEPA website: www.sepaesp.es