QUESTIONS & ANSWERS ON THE SEPA INSTANT CREDIT TRANSFER SCHEME

A. KEY FEATURES OF THE SCT INST SCHEME

1. In the first place, why is a pan-European instant credit transfer scheme needed?

Instant payments already exist in Europe (the UK, Poland and Denmark for instance have successfully launched domestic instant payment solutions). Yet they operate for the moment within the borders of a country, or among the customers of the same Payment Service Provider (PSP). The Euro Retail Payments Board (ERPB) had expressed its desire to avoid fragmentation across Europe. A fragmented landscape of schemes would set barriers to a Single Market for goods and services in Europe and would be prejudicial to Europe’s overall competitiveness. Therefore, the EPC was invited to develop the European Instant Credit Transfer scheme for euro payments. The European PSP community has been working hard – and successfully - since the launch of the Single Euro Payments Area (SEPA) to instil harmonisation in what facilitates many of our daily payment habits. With the digitalisation of our economy and society, customers want faster payments following the trend of the faster delivery of goods and services. The EPC’s SEPA Instant Credit Transfer (SCT Inst) scheme will provide them with instant payments in euro, all across SEPA.

2. Can you briefly explain what the main features of the SEPA Instant Credit Transfer scheme are?

- The SCT Inst scheme is an optional scheme, available to any PSP in the geographic scope of the existing EPC SEPA schemes; scheme participants need to act at least as receivers.

- Individuals, businesses, and government entities are able to use the SCT Inst, in the role of either the originator or the beneficiary of a transaction, provided their PSPs has adhered to the SCT Inst scheme.

- The scheme is built on the foundation of the existing SEPA Credit Transfer scheme: this gives the PSPs which currently offer the existing SCT scheme an ideal step stone to implement the new scheme, as their systems are already configured with the existing SCT scheme.

- The geographical scope of the scheme spans across the 34 countries which are within the scope of the current SEPA schemes (i.e. the 28 countries of the European Union, plus Iceland, Norway, Liechtenstein, Switzerland, Monaco and San Marino).
- It works for credit transfers made in euro, up to an initial maximum amount of 15,000 euro per transaction.

- The money is available in the account of the payee within ten seconds. It means that within ten seconds, the PSP of the person receiving the payment (the beneficiary bank) will report to the PSP sending the payment (the originator bank) either that the funds have been made available on the beneficiary’s account, or that the SCT Inst transaction has been rejected.

- Individual scheme participants have the possibility to agree bilaterally or multilaterally (e.g. within a specific SEPA country) on a lower maximum execution time and/or a higher maximum amount if they wish.

- All adhering scheme participants have to be technically capable to process the SCT Inst transactions on a 24/7/365 basis.

3. **How were the initial maximum amount and duration of an SCT Inst transaction chosen?**

Before it organised the public consultation, the EPC set up an Ad Hoc Instant Payments Task Force, made up of 38 representatives of its members from all parts of Europe, to determine the main features of the SCT Inst scheme, which were approved by the EPC Board.

There was a broad range of views, within the EPC, as to the duration and amount targets of SCT Inst transactions. These parameters (initial maximum duration: 10 seconds, and initial maximum amount per transaction: 15,000 euro) were set while keeping in mind that:

- The SCT Inst scheme will be used for national and cross-border transactions, in a SEPA environment which is often more complex than a national one as more intermediaries (e.g. payment supporting infrastructures) can be involved in the processing of an SCT Inst transaction.

- A pragmatic and progressive approach is key to ensure the SCT Inst scheme’s take-up.

- Those key parameters are not cast in stone but are to be seen as the basis for the next steps of the development of the SCT Inst scheme, subject to the concrete experience of the scheme starting in November 2017. This is why these two parameters are described as “initial”.

In addition, the SCT Inst rulebook explains that the maximum duration and maximum amount of a transaction can be changed for more ambitious targets (lower execution time and higher maximum amount), if individual scheme participants agree bilaterally or multilaterally.

The key characteristics of the scheme were not challenged during the public consultation organised in 2016.

4. **Individual scheme participants can agree bilaterally or multilaterally on more ambitious targets regarding the duration and amount of an SCT Inst transaction. What does that mean exactly? Are you not afraid that**
If PSPs are willing to propose to their customers SCT Inst transactions of a maximum amount higher than 15,000 euros, and/or are technically able to process SCT Inst transactions in less than ten seconds, then they can agree bilaterally or multilaterally to change these parameters for SCT Inst transactions exchanged among themselves.

Note that these parameters can only be changed in a more ambitious direction. Their initial levels are however already ambitious, but at the same time also temporary, as they are likely to be changed for more demanding ones after the scheme is implemented based on experience. This solution ensures that SEPA remains a region at the cutting edge of payments technology, while allowing scheme participants to agree on setting some key parameters at even more ambitious levels.

5. In which countries is the SCT Inst scheme available?

The SCT Inst scheme will go live in November 2017.

It is open to PSPs in the countries that are part of the geographical scope of the SEPA Credit Transfer and Direct Debit schemes, i.e. the 28 EU Member States plus Iceland, Norway, Liechtenstein, Switzerland, Monaco and San Marino.

The complete list of countries and territories part of the geographical scope of the SEPA schemes is available on the EPC website.

The actual lists of countries and scheme participants will progressively grow based on individual PSPs’ commercial and implementation plans.

6. The SCT Inst scheme is based on the existing SCT scheme. Which of the features of this later scheme have been reused in the SCT Inst scheme?

The SCT Inst Rulebook is to a large extent a “copy and paste” of the SCT rulebook except where there is a need for a deviation due to the instant nature of the payment. Below are some of the features of the SCT scheme that have been reused in the SCT Inst scheme:

- The SCT Inst scheme is based on ISO 20022 XML messages.

- The procedure for recalling SCT Inst transactions is identical to the one for SCT transactions.

- Individuals, small and medium sized enterprises, corporates and government entities can take advantage of the SCT Inst scheme in the role of either the originator or the beneficiary provided that their PSPs offer a service based on SCT Inst.

- The payment accounts held at PSPs operating within SEPA for sending or receiving an SCT Inst transaction do not have to be denominated in euro. Any currency conversion is executed in the originator bank or beneficiary bank and is not governed by the SCT Inst scheme.

B. STAKEHOLDERS’ INVOLVEMENT AND NEXT STEPS THEY WILL NEED TO TAKE TO GET READY FOR THE IMPLEMENTATION
7. What was the outcome of the public consultation, organised between 12 April and 10 July 2016?

The EPC is committed to stakeholders’ involvement. In order that the SCT Inst scheme fully reflects market needs, it is necessary to give the opportunity to all stakeholders (and not only the PSPs and/or the members of the EPC, but also the technical players and end users) to have their say.

The EPC received during the public consultation more than 350 comments, from 45 contributors.

Eight major categories of comments were identified:

- What to do if the originator bank has not received a confirmation message
- SCT Inst transaction status investigation procedure for the originator bank
- The concrete r-transaction types required for the SCT Inst scheme
- Process for hits against AML (anti-money laundering), CTF (counter-terrorism financing), embargo and fraud checks
- Concrete role(s) of CSMs to be covered by the SCT Inst scheme rulebook
- Unambiguous definition of the timestamp and the SCT Inst execution time cycle
- Selection of the concrete ISO 20022 XML version for the various SCT Inst messages
- Specifications for Third Party Payment Service Providers (TPPs)

8. How did you review the comments received and decide which could be taken forward? How did you involve the payment community in the finalisation of the scheme?

All comments which were technically and legally feasible in the scheme’s timeframe, and that were supported by a broad community, were taken forward.

The EPC involved its Stakeholder Forums (the EPC Scheme Technical Forum and the Scheme End-User Forum) in the review of the comments received during the public consultation. They have formulated their positions on the comments (their positions are publicly available on the EPC website, so are all comments received and the EPC’s decision for each).

For example, a major change made following the public consultation and the involvement of the EPC Stakeholder Forums is related to the confirmation message sent by the beneficiary bank to the CSM to confirm that the funds can be made available to the beneficiary and the need for the beneficiary bank to wait until it is certain that the CSM has received that confirmation message before making the funds available to the beneficiary. The draft rulebook originally provided that the beneficiary bank did not need to get the certainty that its confirmation message reached the CSM before making the funds available to the beneficiary. This rule was changed, and it is now compulsory for the beneficiary bank to be certain that its confirmation message was received by the
CSM within 20 seconds, otherwise the transaction is considered as having failed. This change has been made to cater for exceptional transaction processing situations. The processing target of 10 seconds between the acceptance of the originator’s SCT Inst instruction by the originator bank (to be demonstrated by an indisputable time stamp) and the receipt of the positive/negative confirmation message from the beneficiary bank (funds have been made available to the beneficiary / SCT Inst is rejected) by the originator bank remains applicable.

Other minor changes were made after the public consultation, to make sure there were no inconsistencies in the rulebook or with the other EPC scheme rulebooks for common features, and to clarify some of its aspects.

9. **What do the Payment Service Providers (PSPs) need to do in order to use the SCT Inst scheme?**

The EPC published the first official version of the rulebook of the scheme on 30 November 2016. PSPs willing to adhere to the scheme (at least as a beneficiary PSP of an SCT Inst transaction, on behalf of their customers) will have to fill in the EPC adherence form, available in January 2017 on the EPC website. An annual scheme participation fee will be announced in due course.

PSPs have one year to get ready for the development of their service offering and for processing SCT Inst transactions. The SCT Inst scheme is based on the existing SCT scheme, in order that its implementation requires less time and is less costly for PSPs.

10. **Do you think the PSPs will be ready in November 2017 to propose to their customers the first SCT Inst transactions?**

There are high expectations for a pan-European instant payment scheme in SEPA, in order to avoid a fragmentation of solutions (as a few countries have already launched their national solution). This has been a main driver for the Euro Retail Payments Board representing the demand and the supply side to invite the EPC to develop a pan-European euro instant payment scheme based on credit transfers. The momentum and the willingness to launch the SCT Inst scheme as fast as possible are there.

As scheme manager, the role of the EPC is to make formally available an SCT Inst rulebook covering business and technical rules and a related set of implementation guidelines around XML ISO 20022 messages by November 2016. This gives the PSPs the possibility to implement the SCT Inst scheme by November 2017. It is up to each individual PSP, depending on its own strategic choices, to offer SCT Inst as an additional pan-European euro payment service, and to adhere to the scheme in the course of 2017. Note that it is an optional scheme.
11. **What about the clearing and settlement\(^1\) of SCT Inst transactions?**

Whereas funds take up to one business day to be available on a payee’s account when a normal SCT is used, the initial target processing time for an SCT Inst transaction and for making funds available to the beneficiary will be ten seconds. Currently, the SCT transactions are processed in batches. All individual SCT transactions received during a specific period of time during a business working day are grouped into a single (batch) file. This file is then submitted for further clearing and settlement usually at the end of day.

The processing of SCT Inst is different as the processing, clearing (and potentially settlement) of SCT Inst take place on a transaction-by-transaction basis as soon as they reach a PSP system, i.e. in real time end-to-end.

Note that as for the existing EPC SEPA schemes, the clearing and settlement layer of SCT Inst transactions lies outside of the scope of the SCT Inst scheme. The SCT Inst scheme provides a single set of rules, practices and standards which are to be respected by individual PSPs and infrastructure providers, including clearing and settlement mechanisms (CSMs).

The clearing and settlement layer is one of the areas where market forces operate. The individual originator PSPs and beneficiary PSPs will select SCT Inst clearing and settlement solution(s) and their mode of participation to a CSM (direct or indirect) based on their requirements and on the commercial offerings from the CSMs. Also risk management practices by originator PSPs and beneficiary PSPs and the progress in processing technology will influence the CSM solutions for SCT Inst.

Instant payment solutions already exist in SEPA. Some CSMs have therefore already proved that they are technically capable of handling payments within seconds in a risk-controlled manner.

**C. THE SCT INST SCHEME’S FUTURE**

12. **Could there be other national or local instant payments credit transfer schemes in euro in the future?**

All credit transfers in euro (including specifically for instant payments) in the EU have to comply with the requirements of the SEPA Regulation. If PSPs wish to carry out instant payments they would either have to use the EPC’s SCT Inst scheme or would have to set up a separate credit transfer scheme which would have to comply – same as for the EPC’s SCT Inst scheme - with the requirements as set out in Article 4 (1) and (4) of the SEPA Regulation. Article 4 of the SEPA Regulation sets demanding requirements for the launch of a new payment scheme in euro.

13. **Now that the scheme is finalised and published, what is the role of the EPC?**

As for the other schemes currently managed by the EPC, the EPC carries out the administration of the SCT Inst scheme, as well as its maintenance and evolution.

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\(^1\) Clearing is the process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement. Clearing of payments is necessary to turn the promise of payment into an actual movement of funds from one PSP to another. The settlement completes the processing of a transaction with the aim of discharging the obligations of one PSP to another through the transfer of funds.
The administration and compliance processes aim to ensure that the SCT Inst scheme is administered in a fair and transparent manner at every stage in accordance with the rulebook and general principles of applicable law.

The SCT Inst scheme will follow the same transparent change management cycle as the other three EPC schemes: a call for change requests will be organised (for the first time in 2017), followed by a public consultation in 2018, and the publication of an updated rulebook effective in 2019. In addition, the EPC introduced a more flexible approach to changing the maximum amount of an SCT Inst transaction. As of November 2018, the Scheme Management Board (SMB - the EPC decision-making body in charge of the schemes’ administration and evolution) will review this amount every year, and decide if it is still appropriate. Scheme participants will also have the opportunity to suggest to the SMB a new maximum amount. With this new process, the maximum amount of an SCT Inst transaction could be changed quickly (90 calendar days after its publication on the EPC website).

The change management procedures aim to ensure that the scheme will be kept relevant for its users, up-to-date, and innovative.

14. **How does the EPC see the scheme evolve in the middle-long run?**

The initial maximum duration and amount of an SCT Inst transaction will be the start of a learning curve for all scheme participants and Payment Service Users (PSUs). These two features are likely to change towards more demanding levels based on experience, market demand and technological advances.