

EU Regulatory Update The Payment Services Directive

Webinar

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Agenda

- PSD overview – key facts
- Key impacts on clients
- Official transposition timetable (as of October 2009)
- Industry Best Practice for late transposition banking communities
- Conclusions and Outlook

PSD key facts (1/2)

Objectives of the PSD: competition, efficiency and innovation, customer protection

- The PSD represents a legal framework for payments within the European Union Single Market, covering the EU 27 as well as Norway, Iceland, Lichtenstein (not Switzerland!).
- The PSD is a European Directive, which means that all Member States are required to implement PSD rules into their national legislation, a process called transposition, by the deadline of the 1st November 2009.
- The PSD applies to payment transactions in Euro and all other Member State currencies within the Single Market, where those are provided by payment service providers located in this Community.
- The PSD will cover all electronic payment services, while cash to cash transactions and cheques are exempted from the scope.
- The PSD does not intend to cover payment services associated with securities asset servicing.
- The PSD includes a focus on customer protection covering the relationship between providers and users of payments services.

PSD key facts (2/2)

Banks in particular need to get ready for compliance and enhanced competition

- With the aim of enhancing competition the PSD creates a new lightly regulated entity called a “Payments Institution”, allowing non-banks to handle payments and join the banking industry’s payment schemes and associations.
- The PSD also defines conduct of business rules for all payment service providers covering the end to end payer to payee relationship.
- The PSD will have a significant impact on the legal framework between banks and their customers setting standard rules for information provision, payment processing rules and service provision – but with flexibility built in to reflect the more bespoke requirements of corporate clients.
- Harmonised refund rules have been established to support SEPA Direct Debits, while unique identifier primacy ensures for enhanced levels of straight-through-processing.
- Central Bank Reporting requirements for Euro transactions across the EEA still constitute a barrier to the free flow of SEPA transactions.
- Every credit institution that provides payment services will have to comply to PSD conduct of business rules by the 1st of November 2009 when national PSD legislation is expected to be in place.

A harmonised PSD approach?

PSD requires common interpretation and implementation...

- Goal of consistent PSD interpretation, supported by:
 - EU Commission Transposition WG and FAQ on the Commission website
- Dialogue with regulators in each domestic market
- At European banking industry level, practical PSD Implementation Guidance published in August 2009 - Group chaired by Citi's Ruth Wandhöfer
 - Banking industry best practice and clarifications crucial, as otherwise significant risk of additional costs for banks and their clients together with interoperability issues/inter-bank conflicts.



PSD: Impact on Corporate/Public Sector Clients

Examples: Payment Transaction Processing and Rights and Obligations

Value Dating and Availability of Funds

- Requirement to make available and credit beneficiary on business day of receipt by the beneficiary's bank – though noting the practical need for the beneficiary's bank to have received that information on the payment as well as the funds
- Citi will ensure crediting and availability of funds upon receipt on a business day before cut-off time
- No longer an option on payments received to compensate the beneficiary bank by 'float' as an alternative to a transaction fee, even if requested by a client.

Cash Placement on Payment Account

- Where consumers place cash into their own account, same-day value and availability is required. An extra day is allowed for corporate deposits, reflecting the different practicalities involved.
- More generally, 'receipt' of cash other than during a business day can be deferred to the next business day in certain circumstances, such as to allow for a wide range of convenient methods of cash placement to continue to be offered to payment service users such as night safes, network extension arrangements – relevance for consumers as well as cash-heavy businesses (e.g. supermarkets)

PSD: Impact on Corporate/Public Sector Clients

Examples: Payment Transaction Processing and Rights and Obligations

Full Amount Principle and Charging Options

- General rule: no deductions of charges allowed from the full amount where both legs of the payment are in the EEA and the transaction is in Euro or another Member State currency.
- EU Commission Services are strongly of the view that charges code SHA is the clear requirement in line with the charge sharing principle in Article A52(2) (excepting in cases where there is a currency exchange) – despite the slightly broader interpretation in a few Member States (who have not ruled out use of OUR option).
- The Commission and Banking industry further support a general move to using the ‘SHA’ charge code for all EEA currency payments travelling within the EEA.
- The usage of SHA will ensure that the ‘full amount’ of the payment transaction will travel up to the beneficiary bank and a separate fee agreed with the beneficiary client will be charged or deducted (in a transparent way from the full amount).
- In order to take full benefit of the changes brought in by the PSD and to minimise the impact of charges to our clients, Citi will ensure to apply SHA to all outgoing funds transfers in EEA currencies circulating within the EEA, including those where a currency conversion is effected by Citi. Our systems will automatically ensure this process starting from 1/11/09 and in line with national PSD legislation being implemented.
- Transactions outside the PSD scope may continue to be sent with inter-bank charge codes OUR or BEN.
- Generally, the recommended best practice to all beneficiary banks is not to reject an incoming payment just on the grounds that the charge code is possibly ‘inappropriate’ as generally the beneficiary bank will not have all the facts necessary to make such a determination with certainty.

PSD: Impact on Corporate/Public Sector Clients

Examples: Payment Transaction Processing and Rights and Obligations

Execution Times and Currency Conversions

- Currency conversions involving a non-Member State currency completely outside scope (Article 2).
- D+1 (or D+3 until 1/1/12) still applies where there is one currency conversion between € and another EEA Member State currency (where the conversion takes place in that Member State and any cross-border transfer in in €).
- The Commission regards payment transactions involving other types of conversions as 'other' transactions, meaning that up to D+4 is allowed.
- In the context of corporate payments currency conversion is in some instances either not necessary due to the existence of specific currency accounts or FX deals are already pre-booked. Therefore, this specific provision is again more relevant in the context of consumer payments.

Treatment of non-Consumer Clients under the PSD / Information

- Many of the consumer related provisions around information and liability do not make sense in the corporate payment environment. Recognising this the PSD permits payment service provider to agree with corporate users that these information requirements and certain liability provision do not apply.
- Citi believes that complying with these consumer protection rules is not appropriate for our services nor beneficial overall to our corporate and public sector clients. Therefore, we will not apply these consumer provisions in order to be able to continue to provide tailor made transaction services solutions to you on the same basis as before.

Transposition timetables – EU Commission update 10/09

| Countries | Adoption | | | | | | | | | | | |
|-----------|------------------|---|----|----|----|----|---|----|----|----|--|--|
| | Entry into force | | | | | | | | | | | |
| | 2009 | | | | | | | | | | | |
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | | |
| AT | | | | | OK | | | | | | | |
| BE | | | | | | | | | | | | |
| BG | OK | | | | | | | | | | | |
| CY | | | | | | | | | | | | |
| CZ | | | | | | | | OK | | | | |
| DE | | | | OK | | | | OK | | | | |
| DK | | | OK | | | | | | | | | |
| EE | | | | | | | | | | | | |
| EL | | | | | | | | | | | | |
| ES | | | | | | | | | | | | |
| FI | | | | | | | | | | | | |
| FR | | | | | | OK | | | | | | |
| HU | | | | OK | | | | | | | | |
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| LV | | | | | | | | | | | | |
| MT | | | | | | | | | | | | |
| NL | | | | | | | | | | | | |
| NO | | | | | | OK | | | | | | |
| PL | | | | | | | | | | | | |
| PT | | | | | | | | | | | | |
| RO | | | | | | | | | | | | |
| SE | | | | | | | | | | | | |
| SI | | | | | | OK | | | | | | |
| SK | | | | | | | | | | | | |
| UK | OK | | | | | | | | | | | |
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | | |
| | 2009 | | | | | | | | | | | |

AT - Austria
 BE - Belgium
 BG - Bulgaria
 CY - Cyprus
 CZ - Czech Republic
 DK - Denmark
 DE - Germany
 EE - Estonia
 EL - Greece
 ES - Spain
 FI - Finland
 FR - France
 HU - Hungary
 IE - Ireland
 IS - Iceland

Country codes:

IT - Italy
 LT - Lithuania
 LI - Liechtenstein
 LU - Luxembourg
 LV - Latvia
 MT - Malta
 NL - Netherlands
 NO - Norway
 PL - Poland
 PT - Portugal
 RO - Romania
 SE - Sweden
 SI - Slovenia
 SK - Slovakia
 UK - United Kingdom

PSD: Potential late adoption

Potential short-term practical issues where countries transpose late.

- Banking industry and Commission are strongly in favour of all countries transposing the PSD for 1/11/09 given intra EU/EEA cross-border payments are in scope.
- Official position is that 6 countries predicting to be late: Estonia, Greece, Latvia, Poland and Slovakia (all hoping to have transposed by the year end and Sweden (hoping for 1st April 2010).
- Market intelligence suggests this is an optimistic view and additional countries such as Spain, Belgium and Finland may also be late.
- Consequent impact in practical terms: clients may experience a brief period of non-uniform treatment where a 'PSD payment' is being sent to a country yet to complete its transposition; and hence where 'old' legal regime practices could be applied.
- An ideal 'best practice' would be if banks in late countries could voluntarily adopt key PSD payment processing provision (e.g. Full amount principle) between 1/11/09 and transposition completion, but this may not always be possible.
- To help minimise uncertainty, a survey is underway at industry level designed to clarify the likely approach in the key countries where transposition may be delayed.

PSD: Potential late adoption

Preliminary feedback from industry survey

Feedback at industry level on potential delays in PSD national transposition and ability to follow 'ideal best practice' of voluntary early adoption of key processing principles as follows:

- Poland - delay until end of '09/early 2010; Best Practice under discussion
- Belgium – expected for beginning 2010; Best Practice open to individual bank's approach
- Finland – May 2010; some Best Practice followed
- Slovakia – 1 December 2009 expected date; no Best Practice but full amount ensured today
- Sweden – April 2010, however banks will follow Best Practice from Nov 09
- Greece – new Parliament from mid-October, priority to vote PSD but potential delay; Best Practice intended to be followed
- Spain – significant risk of delay, timeline unclear, no intention as of yet to follow Best Practice
- Estonia – Potential delay by a few months, Best Practice will be followed from Nov 09
- Latvia – delay until end '09; Best Practice approach still unclear

Conclusions

PSD: Challenges and Benefits

- The PSD will be a major challenge for European Banks
- Potential legal fragmentation with 30 PSDs
 - PSD is additionally open for non harmonised implementation via Article 86
- PSD as an enabler for
 - SEPA Direct Debits
 - Increased efficiencies in payments processing
 - Enhancement of competition with the arrival of payment institutions
 - Streamlined consumer protection
- To reduce the PSD challenge of non-harmonisation:
 - European guidance at banking industry is being prepared – dissemination via ECSAs and EPC to reach all banks
 - Domestic PSD industry guidance at banking industry level where available will complement this EU guidance in line with additional legal and practical flavours for national jurisdictions.
- Key benefits for clients:
 - Transparent pricing – no float on beneficiary side
 - Lower end-to-end transaction charges with the usage of the 'SHA' charge code
 - Guaranteed maximum execution cycles of D+3, reducing to D+1 by 2012

Questions & Answers

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