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Payment Mechanisms In International Transactions

Regulatory Framework For New Payment Mechanisms

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European Union

- 27 Member States
- In 1999 introduction of EURO as single currency
- 16 States are members of the Monetary Union
“Euroland”
- United Kingdom, Sweden and Baltic States are not members of the Monetary Union

Euroland in reality

- Cross-border payments from one member state to the other are not treated as domestic payments
- Higher fees and longer process than for domestic payments

SEPA

- Single Euro Payment Area
- European Payments Council
- Organizational and technical measures
- Legal measures
 - Cross Border Payments Directive 2560/2001/EC
 - Payment Services Directive 2007/64/EC

New payment instruments

- SEPA-credit transfer: new defined by SEPA
- SEPA-direct debit: new defined by SEPA
- SEPA-card payment: use of existing rules and infrastructure (“adaption”-strategy)

e2e STP ... the future

- “End-to-end straight-trough processing”
- Electronic invoice shall be sent to payer’s internet banking application

Push payments ...

- Credit Transfer: payment instruction to payer's bank
- SEPA-Credit Transfer:
 - for the whole SEPA-zone
 - settlement time 3 business days; as of 2012 – 1 business day
 - account identifiers: IBAN – International Bank Account Number; BIC – Bank Identifier Code

Pull payments

- Direct debit: transfer initiated by the payee (i.e. recipient via payee's bank
 - used for recurring payments, like utility bills
 - requires authorization by the payer
- SEPA-direct debit:
 - for the whole SEPA-zone
 - settlement time 5 business days for first payment, 2 business days for following
 - account identifiers: IBAN and BIC

Card payments ...

- Debit cards: enable cardholder to charge purchase directly to account
- Credit cards: cardholder can make purchases within credit limit

Payment Services Directive creates ...

- new business model of Payment Institution
- required share capital: € 20,000; € 50,000 or € 125,000
- single authorization for whole EU (“EU-passport”)
- rules regarding liability for incorrect payment
- extrajudicial complaint procedures

SEPA timeline

- Design phase began in 2004
- Implementation phase began mid of 2006
- Migration phase began early 2008
- By end of 2010 all SEPA instruments shall be operative and in general use

- PSD requires transformation into national law of each Member State

SEPA impact ...

- Consumers need only one bank account
- Merchants will benefit from increased use of card payments
- Companies will be able to perform all Euro-transactions from one bank account

Latest development ...

- Regulation 3656/2009 on Cross-Border-Payments passed in July 2009 replaces regulation 2560/2001 on Cross-Border-Payments
 - sets a multilateral interchange fee per transaction