

## Self-assessment of the SEPA-compliance of the Electronic Clearing System<sup>1</sup>

To achieve the desired transparency, the ECB/Eurosystem (ECB) expects major infrastructure providers aiming to meet the SEPA compliance criteria to conduct self-assessments on a regular basis and make them publicly available.

The Electronic Clearing System (EKS) of Latvijas Banka is the net settlement system processing retail credit transfers. The EKS was launched on 17 November 1998. The EKS is currently the largest retail payment system in Latvia ensuring fast, efficient and low-cost settlements in lats and euro. The EKS commenced processing of euro payments on 1 January 2008, thus enabling the customer payments to be settled in euro within one business day among Latvia's banks – similar to payments settled in lats.

At the beginning of 2009, Latvijas Banka, the Association of Latvian Commercial Banks and the Treasury of the Republic of Latvia agreed on a common concept for transforming the EKS into a SEPA compliant system which is to be launched on 12 November 2010.

The EKS is in the process of development to become the SEPA Scheme compliant ACH. Latvijas Banka has conducted this self-assessment of the EKS SEPA compliance, taking into account the functionality of the EKS which will be ensured as of 12 November 2010.

To ensure interoperability with other infrastructures of the SEPA and reachability of the EKS participants, the EKS will exchange cross-border credit transfer messages with the SEPA Clearer, the system of Deutsche Bundesbank.

1. Processing capabilities: To promote the SEPA-compliance of infrastructures, infrastructures are asked to comply with the requirements of the PEACH/CSM Framework, the SCT Rulebook and/or the SDD Rulebook(s), the Implementation Guidelines and the associated UNIFI (ISO 20022) XML standards, and to be ready to support scheme testing as planned by the European Payments Council (EPC).

- 1) Have you sent a Disclosure Letter to the EPC regarding your intention to become a SEPA scheme compliant CSM?

Yes       No

Comments:

The Disclosure letter No. 10-08.1/2009/2 "Disclosure of Intent to be a SEPA Credit Transfer Scheme Compliant CSM" of Latvijas Banka has been sent to the EPC on 3 August 2009.

- 2) Are you compliant with the relevant PEACH/CSM Framework?

Yes       No

Comments:

Pursuant to the PE-ACH/CSM Framework, Version 1.2 approved on 24 June 2008 (No. EPC170/05), the EKS will be the SEPA Scheme compliant ACH, applying

<sup>1</sup> Terms of reference for the SEPA-compliance of infrastructures, European Central Bank, 25 April 2008. <http://www.ecb.int/paym/sepa/timeline/compliance/html/tor.en.html>

**Principles for SEPA Scheme Compliance:**

- all payment information shall be delivered in full and without alteration between the involved SEPA Scheme participants;
- payments shall be executed within one business day, thus fully complying with the maximum execution time stipulated by the EPC SEPA Credit Transfer Scheme Rulebook, incl. those made between the EKS and the SEPA Clearer and the exchange of payments with STEP2, the system of the Euro Banking Association;
- all charges and fees shall be collected from the SEPA Scheme participants directly using the services provided by the EKS and not deducted from a SEPA payment transaction;
- the agreed SEPA data formats and technical guidelines shall be used and requested;
- Additional Optional Services as defined in the SEPA Credit Transfer Scheme Rulebook shall not be provided. Any provision of services for non-SEPA schemes, and any other additional services provided shall not compromise the provisions of the SEPA Credit Transfer Scheme Rulebook, for instance, the use of the characters of the Latvian alphabet will be based on a multilateral agreement;
- the appropriate system rules and functional specification, incorporating operational rules and access criteria shall be fully transparent;
- at the beginning of 2011, an assessment of the EKS will be conducted in line with the Oversight Standards for Euro Retail Payments Systems published in June 2003, and as may be amended in the future, as well as similar standards as promulgated by regulators as required;
- the requirements of the PE-ACH/CSM Framework shall be met with respect to the access criteria, functions performed and governance principles.

3) Are you compliant with the relevant SCT Rulebook?

Yes       No

Comments:

The EKS will comply with the SEPA Credit Transfer Scheme Rulebook, Version 3.2 approved on 24 June 2008 (No. EPC125-05).

4) Are you compliant with the relevant SDD Rulebook(s), i.e. core service and, if and when adopted, Business-to-Business service and e-mandate service?

Yes       No

Comments:

Not applicable to the EKS. The EKS is a credit transfer system, and it is not planned to offer direct debit services by the EKS.

- 5) Are you complying with the relevant guidelines that require the use of the UNIFI (ISO 20022) XML message standard?

Yes       No

Comments:

The EKS will adhere to the SEPA Transfer Scheme Inter-bank Implementation Guidelines, Version 3.2 approved on 26 June 2008 (No. EPC115-06) and stipulating the use of the UNIFI (ISO 20022) XML message standards.

- 6) Are you able to deliver all mandatory payment information (from the so-called yellow data fields) in full and without alteration between the involved scheme participants?

Yes       No

- a. Please provide information on your ability to process the full SEPA-subset of the ISO 20022 XML messages (i.e. the yellow and white data fields)?

Yes       No

Comments:

Based on the UNIFI (ISO 20022) XML message standards, the EKS will only process the yellow data fields of the subset of payment message stipulated by the SEPA Credit Transfer Scheme Inter-bank Implementation Guidelines, Version 3.2 approved on 26 June 2008 (No. EPC115-06).

- 7) If you provide conversion services between XML and legacy formats (and/or v.v.), do you ensure that no payment data is lost?

Yes       No

Comments:

Not applicable to the EKS. Conversion between XML and legacy formats is not envisaged in the EKS as only XML format is to be used in the system.

- 8) Have you adequately tested your processing procedures?

Yes       No

Comments:

It is planned to test the EKS processing procedures in the second half of 2010 according to the EPC SEPA Testing Framework, Version 2.3 approved on 12 March 2009 (No. EPC228\_06).

- a. Please describe the framework, the organisation, the scope (national or cross-border) and the reach (CSM-bank, bank-CSM-bank, end-to-end) of the testing).

Comments:

The EKS test plans will be developed and they will incorporate the framework, organisation and scope (national and cross-border) and the reach (CSM-bank

and bank–CSM–bank).

2. Interoperability: To promote the SEPA–compliance of infrastructures, infrastructures are asked to adopt interoperability rules, i.e. interface specifications and business procedures for the exchange of SEPA credit transfers and SEPA direct debit payment orders between banks and infrastructures, and between infrastructures, that are preferably mutually agreed upon by the relevant CSMs, and undertake to establish a link with any other infrastructure upon request, based on the principle that the cost for establishing the link is borne by the requesting infrastructure.

- 1) Have you adopted interoperability rules, i.e. interface specifications and business procedures for the exchange of SEPA credit transfers and SEPA direct debit payment orders between banks and infrastructures, and between infrastructures?

Yes       No

Comments:

Compliance with interoperability rules will be ensured among banks and the EKS and the EKS and the SEPA Clearer.

- a. If yes, are the interoperability rules you are using mutually agreed upon by the relevant CSMs?

Comments:

Interoperability rules are agreed by Latvijas Banka and Deutsche Bundesbank.

- b. please describe, especially where you are not using mutually agreed interoperability rules, the relevant elements for interoperability (message formats, cut-off times, clearing and settlement procedures, reconciliation and control procedures);

Comments:

Not applicable to the EKS.

- c. are you compliant with other relevant rules, guidelines or practises which aim at ensuring interoperability (e.g. the "CSM Market Practises")?

Yes       No

Comments:

The EKS will comply with the SEPA CSM Market Practices, Version 1.2 approved on 1 February 2008 (No. EPC248-07). Pursuant to the infrastructure topologies provided by the EPC SEPA CSM Market Practices, Version 1.2, the EKS is compliant with the ACH category.

- 2) Would you undertake to establish a link with any other infrastructure upon request?

Yes       No

## Comments:

The procedure of infrastructure interoperability will be elaborated for the EKS, thus ensuring a link between the EKS and the SEPA Clearer and, following a mutual agreement, also with any other infrastructure upon its request.

- a. Have one or several links been established? If yes, please provide the names of the participating infrastructures;

Yes             No

## Comments:

A link with the SEPA Clearer, the system of Deutsche Bundesbank, will be established as of 12 November 2010.

- b. a link would ideally be created on the basis of a mutually beneficial business case. In absence of such a business case, the requesting infrastructure provider would have to bear the costs of the requested link (setting up and maintenance thereof). Who bears the costs of the established link(s)?

## Comments:

The EKS intends to establish links on mutually beneficial business terms. Each infrastructure involved in the link will bear its own costs of establishing the respective link. In the link with the SEPA Clearer, Latvijas Banka will pay the fees for transactions in line with the Deutsche Bundesbank price list.

- c. have you considered, either on your own initiative or upon request, changing the internal processing procedures in order to increase the efficiency of a link? Have any such changes been carried out?

## Comments:

To enhance the efficiency of the link in the process of transforming the EKS into a SEPA compliant system, the EKS processing procedures will be amended. For instance, three clearing cycles will be implemented instead of two cycles in the EKS and the EKS operation time adjusted to process payments from the SEPA Clearer on the same day.

- d. how are the transfers between CSMs settled?

## Comments:

The settlement between the EKS and the SEPA Clearer will be effected through the TARGET2. Technical cooperation with Deutsche Bundesbank will be implemented in line with the procedure of infrastructure interoperability.

3. Reachability: To promote the SEPA-compliance of infrastructures, infrastructures are asked to be able to send or receive euro payments to and from all banks in the euro area, either directly or indirectly through intermediary banks, or through links between infrastructures (in other words, to provide full reachability).

- 1) Are you able to send euro payments from your participants and receive euro payments for your participants, to and from all SEPA scheme participating banks in the euro

area, either directly or indirectly through intermediary banks, or through links between infrastructures.

Yes       No

- a. Please describe how many SEPA scheme participating banks you can reach (directly or indirectly) on the basis of contractual arrangements?

Comments:

In the middle of 2009, 26 direct participants have been participating in the EKS. Other banks registered in the SEPA Credit Transfer Scheme (about 4 480 banks) will be reachable to the EKS participants through the EKS link with the SEPA Clearer and the participation of Deutsche Bundesbank in STEP2.

- b. how do you ensure that you are able to route a payment to each bank in the euro area that is participating in the SEPA scheme(s)?

Comments:

The EKS will exchange payments with the SEPA Clearer and through the participation of Deutsche Bundesbank in STEP2, the routing of payments will be provided for any bank which is a participant in the SEPA Credit Transfer Scheme.

- c. please describe how you obtain the necessary routing information?

Comments:

It will be EKS routing database which is to be updated in cooperation with the EKS direct participants and the SEPA Clearer. The functional specification of the EKS will incorporate routing principles.

If you use your own routing database, how do you update it, i.e. how do you obtain the latest information from all SEPA scheme participating banks in the euro area?

Comments:

The EKS will update its own routing database following the receipt of information from banks – the direct participants in the EKS who are to deliver, without delay, an updated information to Latvijas Banka in case of any changes. Deutsche Bundesbank will provide Latvijas Banka with information on other banks participating in the SEPA (the list of banks reachable by the SEPA Clearer) on a monthly basis.

How do you address possibly conflicting information if a SEPA scheme participating bank is reachable via several payment channels?

Comments:

In the middle of 2009, only one payment channel, the SEPA Clearer, has been planned, stipulating further criteria for the selection of channels for payments which are not addressed to the direct participants in the EKS.

How is routing decided where there are several possibilities for reaching a SEPA scheme participating bank?

Comments:

In the middle of 2009, only one payment channel, the SEPA Clearer, has been planned, stipulating further criteria for the selection of channels for payments which are not addressed to the direct participants in the EKS.

- d. how much time (in days) do you need to reach every SEPA scheme participating bank, respectively be reached by every bank in the euro area that is participating in the SEPA scheme(s)? Will you be able to reach every SEPA scheme participating bank within one business day at the latest by 2012?

Comments:

National payments executed in the EKS will reach any bank participating in the SEPA Scheme within one business day. Cross-border payments made between the EKS and the SEPA Clearer will also reach any bank participating in the SEPA Clearer within one business day. In case of the remaining cross-border payments, the time period for reaching any other bank participating in the SEPA Scheme will depend on STEP2 rules – currently within three days.

- e. if you currently do not offer full reachability to your participants, do you intend to offer it at a later point in time? If so, how will you achieve this and by when?

Yes       No

Comments:

As of 12 November 2010, Latvijas Banka will ensure full reachability to the EKS participants.

4. Choice for banks: To promote the SEPA-compliance of infrastructures, infrastructures are asked to enable financial institutions to make infrastructure choices based on service and price, and therefore not to apply undue access restrictions, nor to set obligations for users to process certain types of payment in a specific infrastructure, or via specific proprietary standards, nor to impose participation obligations on users of other infrastructures, and to ensure full transparency of services and pricing.

- 1) Have you made your retail payments clearing service offerings and your fee structure (including information (and amounts) about all types of applicable fees, such as admission fees, periodical fees, transaction fees or package fees) publicly available?

Yes       No

Comments:

Fees applicable to the EKS will be publicly available in autumn 2010.

- 2) Do you refrain from applying different access conditions depending on the type of applicant, its location or other kind of considerations?

Yes       No

- 3) Do you refrain from obliging your participants to process certain SEPA payments in a specific infrastructure?

Yes       No

- 4) Do you refrain from obliging your participants to use specific proprietary standards for SEPA payments?

Yes       No

Comments:

The EKS participants will comply with the SEPA Credit Transfer Scheme Inter-bank Implementation Guidelines, Version 3.2 approved on 26 June 2008 (No. EPC115-06). The functional specification of the EKS will incorporate the above Guidelines.

- a. If no, please describe the proprietary standards for SEPA payments that you oblige your participants to use.

Comments:

Not applicable to the EKS.

- 5) Do you refrain from imposing participation obligations on the users of other infrastructures when another CSM is requesting a link?

Yes       No