

# **HUNGARY**

## **National**

The logo for the Single Euro Payments Area (SEPA) is displayed. It consists of the letters 'S', 'E', 'P', and 'A' in a bold, sans-serif font. The 'S' and 'A' are blue, while the 'E' is yellow. The 'E' is stylized to resemble the Euro symbol (€), with a horizontal line through its center.

## **Plan**

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# I. Introduction

## **1. Objectives of the Single Euro Payments Area (SEPA)**

The removal of barriers to the free movement of people, goods, services and capital across borders is key to creating a single European market. Economic and monetary union has laid the foundation for the integration of goods and services markets in Europe. The introduction of the euro was another milestone of this integration. While consumers in the euro area have dealt in euro since January 1, 2002, the payments services markets in the various EU member states are still organised on a national basis, fragmented into 27 national jurisdictions. Cross-border transfers within the euro area are still complicated and costly. Therefore, the European Commission and the European Central Bank (ECB) have decided to further develop the integration of the payments services markets, assigning the financial industry and banking communities a key role in this process.

Regulation 2560/2001/EC in December 2001 was the first step in aligning the charges for cross-border and domestic payments in euro, by providing that the charges levied by an institution for cross-border payments in euro should be the same as those for payments in euro within a member state (initially up to a limit of EUR 12,500, subsequently raised to EUR 50,000). The banking industry has fully committed itself to this political initiative. As a follow-up of this regulation, European banks in 2002 established the European Payments Council to manage and coordinate industry activities aimed at creating a Single Euro Payments Area (SEPA). Financial institutions outside the euro area were also invited to join and participate in the EPC's work. Accordingly, the Hungarian banking community was also given the opportunity to take part in this creative effort.

The main idea of SEPA is to promote European integration through an innovative and competitive system for payments in Euro, ensuring high-quality payments services for EU citizens and businesses, with more efficient products, provided at lower costs. The purpose of SEPA is to replace national systems with a single pan-European payments system. This will require

- a common currency,
- standard payment instruments,
- common technical standards and business practices,
- efficient clearing and settlement mechanisms, and
- harmonised legal frameworks.

SEPA rules and instruments will not only increase the level of standardisation and efficiency of cross border payments, but will also redesign the domestic payment services framework. The full-scale implementation of the SEPA payment schemes will result in the full harmonisation of cross-border and domestic payments, irrespective of the location where the transaction is initiated or where the account is maintained and irrespective of the payment infrastructure or the processing service provider.

The criteria of efficiency and standardisation will foster competition between service providers and clearing houses, thereby improving service quality and impacting fees in the euro-area member states. SEPA will benefit customers through ensuring fast and standard administration of their payments in euro.

The European banking industry has fully committed itself to the objectives of SEPA and reaffirmed this commitment by a Declaration (See Annex 1.)

Although the objectives of SEPA primarily apply to the euro area, the EU expects all 27 member states to make the SEPA payment schemes accessible to all. To share in the benefits of standardisation, non-EU member states of the EEA: Iceland, Norway, and Liechtenstein furthermore, Switzerland have also joined the project.

In summary: the implementation of SEPA standards, schemes, frameworks and payment instruments in the euro area will result in higher efficiency ensuing from standardisation, increased competition and lower fees. Market growth promotes innovation, and users will benefit from being able to manage payments with 31 countries through a single infrastructure. The ultimate goal is to enable account holders to make credit transfers in euro from the same account and in the same form across the euro zone as easily as they do within their local market.

The SEPA roadmap is aimed at replacing current payment instruments in the euro area (transfers, collections and card payments) with SEPA payment schemes, mindful of users' interests.

## **2. Implementation measures**

SEPA implementation is supported by several factors. The EU decision-making bodies (the European Commission, Council and Parliament) and national legislators are responsible for creating the legal framework and its transposition of directives into national laws. European banks, through their national associations, contribute to the development of the SEPA schemes, standards and principles in self-regulatory manner.

On establishment of the EPC, European banks and banking associations in May 2002 issued a joint document entitled "Euroland: Our Single Payments Area – White Paper". In this, they set out the key principles for SEPA and committed themselves to their implementation by 2010. Then, specific targets and the related timelines were defined, in a document adopted in 2004<sup>1</sup>.

The SEPA Roadmap set out the following deliverables:

- Developing a common set of rules for credit transfers and direct debits and a framework for card payments. These will create a set of core pan-European payment

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<sup>1</sup> „Realisation of the Single Euro Payments Area – Roadmap 2004 -2010”

instruments. While cashless payment instruments are priorities, the developing of a Single Euro Cash Area (SECA) Framework is also proposed.

- The Framework for the Evolution of the Clearing and Settlement of Payments should support the operation of the SEPA schemes and the creation of the related infrastructures.

To promote implementation, working groups to coordinate the development of the relevant instruments and a Roll-Out Committee to oversee implementation were set up.

In 2006, about 8,000 European banks accepted the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks and related documents<sup>2</sup> and the SEPA Cards Framework defining a common set of rules for card schemes and issuers. The required message standards were also put in place<sup>3</sup>.

The EPC also adopted a clearing and settlement framework<sup>4</sup> to ensure the interoperability of infrastructures.

Principles for the processing, storage, distribution and recycling of euro cash are set out in the Single Euro Cash Area Framework (SECA).

To eliminate divergences between national regulatory frameworks and to ensure consistent operation of the common payment schemes, the European Commission in December 2005 compiled a draft directive aimed at harmonising payments regulations across the EU. Following national consultations, the Directive on payment services in the internal market (Payments Services Directive - PSD<sup>5</sup>) was adopted in November 2007, to be transposed into member states' national legislation by November 1, 2009. The complexity of legal issues was reflected in national consultations which took much longer time than originally planned. The delay caused banks problems in the timely implementation of the SEPA schemes, especially the SDD Scheme. Consequently, the SDD is unlikely to be implemented before the end of 2009. The PSD affects all current payment products and services.

### **3. Implementation timetable**

The EPC has drawn up a timeline based on three delivery phases:

- Phase 1: scheme design and preparation - by 2006.
- Phase 2: implementation and roll-out - 2007-2008.
- Phase 3: coexistence of national and pan-European schemes and gradual adoption of the latter in 2008-2011.

Well-known consultants claim that the efforts required for implementing SEPA will be comparable to the effort expended on the introduction of the euro.

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<sup>2</sup> A detailed list of these documents is provided in Annex 3.

<sup>3</sup> UNIFI-ISO 20022-XML

<sup>4</sup> Pan European Automated Clearing House/Clearing and Settlement Mechanism Framework

<sup>5</sup> Payments Services Directive (PSD) - Directive 2007/64/EC of the European Parliament and Council of 13 November 2007 on payment services in the internal market, amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

The issue is even more complex in the non-euro-zone countries, including Hungary. In implementing the SEPA schemes in Hungary, attention should be paid to ensuring, on the one hand, the reachability of the current national currency-based infrastructures in the longer-term until the euro is introduced in Hungary and, on the other hand, flexibility in responding to international market needs.

Customer needs and competition require all payment service providers to adapt to the changed requirements; therefore, the new payment schemes will by definition be implemented in Hungary, as well. However, regarding the timeline, the National Euro Transition Plan will have to be taken into account.

Preparatory tasks and the organisational framework for the introduction of the euro have been set out by the Hungarian Government in its Resolution No. 1071/2007 (IX 21.) (Pursuant to this, the deadline for the submission of the National Euro Transition Plan is June 30, 2008). For determining the detailed timetable for migration to the SEPA schemes, the targets of the National Euro Transition Plan should be fixed. The continuation of forint payments in the longer-term will make it more difficult to publicise the new SEPA payment schemes, running in parallel. Therefore, special attention should be given to communications.

Due to the complexity of the task, the management and oversight of SEPA implementation will be performed by the national organisations in each member state.

#### ***4. Expectations from national SEPA organisations***

The national SEPA organisations are responsible for defining the rules, timeline and technical support required for the partial or full integration of current payment instruments with the SEPA payment schemes.

This body is also responsible for identifying the products that will be replaced with SEPA payment instruments and those to be retained as special instruments in domestic payments.

The timeline for SEPA implementation will be largely influenced by the infrastructure available and market players' disposition and attitude to accepting and using the new payment instruments in the country in question.

The objective, of course, is to make the transition period - the period of coexistence of the old and new products - as short as possible. However, the deadline for switching to the new payment schemes will largely depend on the acceptance of the new payment instruments by the market. Fees will be a key factor. Given that implementation will largely depend on the market, the national implementation organisation will have important role in maintaining regular and meaningful communication with users (market players, government) and monitoring user needs and requirements.

Furthermore, national SEPA implementation organisations will have to work towards ensuring that these needs are communicated to the EPC's competent working groups during the development of new products or the national review of new schemes.

## **5. SEPA implementation in Hungary**

The Hungarian payments market is a non-euro-zone market. Therefore, the implementation of SEPA payment instruments in Hungary should be carefully planned. The volume of euro payment transactions is substantially lower than that of forint transactions and all transactions in euro, whether domestic or cross-border, are settled outside Hungary. Basically, all payments in euro are fulfilled as cross-border payments. There is no difference between domestic and cross-border payments in terms of technology, infrastructure, administration or costs and this will not essentially change after the implementation of the SEPA payment schemes in Hungary. After the introduction of the euro, all these transactions will be automatically treated as domestic transactions.

The restructuring of the current, efficient, national clearing system will entail substantial costs for market players. Care must be taken to ensure that user interests are not prejudiced and the SEPA schemes are increasingly accepted by the market.

Banks in Hungary are currently connected to the pan-European clearing system (EBA STEP2) through Magyar Nemzeti Bank (MNB), the central bank of Hungary, or through their parent or correspondent banks. (EBA STEP2 will be the clearing channel after SCT implementation). Accordingly, they can implement the SEPA payment schemes, either through developing the relevant products according to the Rulebooks and choosing the SEPA compliant connection point, or through their parent banks, using their technology infrastructure.

SCT implementation in Hungary began on January 28, 2008, in line with the European timetable. Given the non-euro environment, no decision has been made on a sector-level (national-level) implementation. Implementation and confirmation of compliance is the individual responsibility of each bank. Hungarian banks are free to decide on the time and means for their compliance and reachability; however, banks are fully committed to achieving reachability as soon as possible. Furthermore, banks will seek to make the SCT Scheme available to their customers with a view to publicising the SCT as the standard payment instrument to be generally used following the introduction of the euro in Hungary.

The above requirements do not apply to transactions that due to their data contents or other attributes cannot be processed as SEPA payments. These will continue to be treated similarly to payments in other currencies or payments made outside the EU.

The SEPA Direct Debit Scheme is expected to be launched by the end of 2009 at the latest, after transposition of the PSD. Accordingly, the final migration plan will be completed in 2009.

The first version of the Hungary National SEPA Plan was compiled by taking into account the above circumstances. It sets out the implementation of the SEPA payment schemes, including the main milestones of implementation.

## **6. Hungary National SEPA Plan**

The Hungary National SEPA Plan was compiled by an ad hoc working group made up of specialists from commercial banks, the central bank and the Hungarian Banking Association. The plan was adopted by the Hungarian National SEPA Committee. As also shown in the figure in Annex 2, the full launch of the SEPA schemes will coincide with the introduction of the euro in Hungary. Main milestone of the implementation process:

1. The National SEPA Committee (NSC), the decision-making body of the national SEPA implementation organisation was formed in 2007 to prepare the setting up of a national SEPA organisation in the form of an association.
2. The national SEPA organisation, the Hungarian SEPA Association, was established in 2008.
3. The National SEPA Committee appointed members of the National Adherence Support Organisation (NASO) to assist banks seeking to adhere to the SEPA Credit Transfer Scheme, starting on January 28, 2008. Thus, Hungary's NASO, the organisation responsible for providing Hungarian banks with guidance on the SCT adherence process and for liaising with the EPC was set up.
4. Parallel with the Hungarian NASO, the SEPA Communications Committee was established and held a press conference on January 28, 2008, to inform the media and the general public on the timetable for Hungarian banks' adherence to the SCT scheme, the launch of the scheme and the expected impacts of the implementation of the scheme in Hungary.
5. Following completion of the registration process, the Hungarian SEPA Association adopted its Statutes and commenced operations in the first quarter of 2008. With the foundation of the Association, tasks related to the Single Euro Payments Area, previously performed by various organisations of the banking community, have been integrated into a single organisation.
6. Hungarian legislation will be adjusted to the PSD in 2009. Also, as described in Section IV., we are working towards making the SEPA Direct Debit Scheme and SEPA Cards Framework also available to customers in Hungary.

As a non-euro-area EU Member State, Hungary has complied and will manage its National SEPA Plan according to the following aspects:

- The introduction of the euro will entail the roll-out of SEPA schemes to all domestic payments. Accordingly, euro transition will closely coincide in time with SEPA migration.
- The expected impacts of regulatory changes ensuing from the PSD shall be taken into account.
- The National SEPA Plan is an instrument to express our strategic commitment and a basic document for our preparations for euro transition and SEPA migration. As such, it shall be regularly reviewed and updated - this will be the responsibility of the Hungarian SEPA Association.
- A key task for the National SEPA Association will be to familiarise stakeholders with the SEPA objectives and to secure their commitment to the strategic and practical implementation of SEPA.

## **II. Implementation institutions**

### ***1. The National SEPA Committee and the Hungarian SEPA Association***

#### **1.1 National SEPA Committee**

The Payment System Forum, set up in 2003 to promote the development of the payments system in Hungary, at its extraordinary meeting of October 9, 2007 established the Hungarian National SEPA Committee (NSC) as an independent decision-making body in issues related to SEPA. Most major Hungarian banks involved in providing payments services are represented on the Committee. The National SEPA Committee set up a working group to develop the National SEPA Plan and adopted a resolution providing for the establishment of the Hungarian SEPA implementation organisation.

The Hungarian SEPA implementation organisation, the Hungarian SEPA Association, was formed in the 1<sup>st</sup> quarter of 2008.

## 1.2. Hungarian SEPA Association

The European Payments Council (EPC) requires all EU member states to set up a national implementation organisation to manage the transition to SEPA. The main task of this organisation is to determine the timetable and process for the new SEPA schemes, processes and infrastructure to replace the national payment schemes.

At the same time, the EPC has not set any requirements for the legal form, operation or membership of the national organisations, thus giving national banking communities a high degree of discretion on these issues.

Several aspects have been taken into account in establishing the Hungarian organisation as an association:

- in view of the self-regulatory nature of the SEPA process, it should be ensured that as many as possible of the key players, payment service providers (principally, banks), are represented in the national organisation, either directly, as members, or indirectly, through other organisations;
- a governing body to manage operations should be set up; only selected payment service providers can be represented in this body;
- the provision of information to the rest of the payment service providers and their participation in strategic decision-making should be ensured;
- to ensure successful implementation, user representatives<sup>6</sup> and the competent government agencies<sup>7</sup> should also be involved in the organisation's work, either as members or as observers, to allow them to participate in strategic decision making affecting them;
- in setting the decision-making mechanism, it should be borne in mind that there will be certain tasks that will be carried out by the participants according to their individual decisions, in different ways and timing. On the other hand, certain tasks will have to be implemented on a mandatory basis (some also involving costs). The organisation's ability to enforce these latter tasks will be limited, as the sanctioning tools available to it may not be sufficient to enforce them. In case of inability to make decisions, self-regulation, as a basic principle of SEPA, may be jeopardised. In this case, rules provided by the regulatory authorities will apply.

The organisation's operations will be governed by the Hungary National SEPA Plan, as developed, accepted and updated by its members. The implementation of this Plan will be the organisation's primary objective. In addition to its basic function, the Hungarian SEPA Association will have the following tasks:

- organising the nationwide communication on SEPA,

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<sup>6</sup> Business and consumer associations, major service providers

<sup>7</sup> The regulatory and supervisory authorities and the Hungarian State Treasury

- liaising with international organisations, especially with the EPC and its bodies and working groups and the SEPA organisations of other member states,
- providing, together with the NASO, legal assistance to those seeking to adhere to the SEPA payment schemes as well as joining SEPA compliant clearing and settlement systems.

### III. SEPA payment schemes and other products

With the launch of SEPA Credit Transfers on January 28, 2008, the implementation of the Single Euro Payments Area has commenced.

From this point European banks and financial service providers will have until December 31, 2010 time to prepare themselves and adhere to SEPA, thus making SEPA a reality.

As all other financial institutions in Europe, Hungarian banks will decide individually on the timetable and process for their adherence to SEPA. However, all banks have expressed their intention to commence and proceed with the adherence process from January 28, 2008.

#### 1. SEPA Credit Transfer (SCT)

The SEPA Credit Transfer Scheme (SCT) was launched on January 28, 2008. The SCT means that participants must comply with a standard service level, time cycle and technical standards, as provided in the SCT Rulebook<sup>8</sup>. By launching the SCT, the first SEPA payment scheme has been implemented.

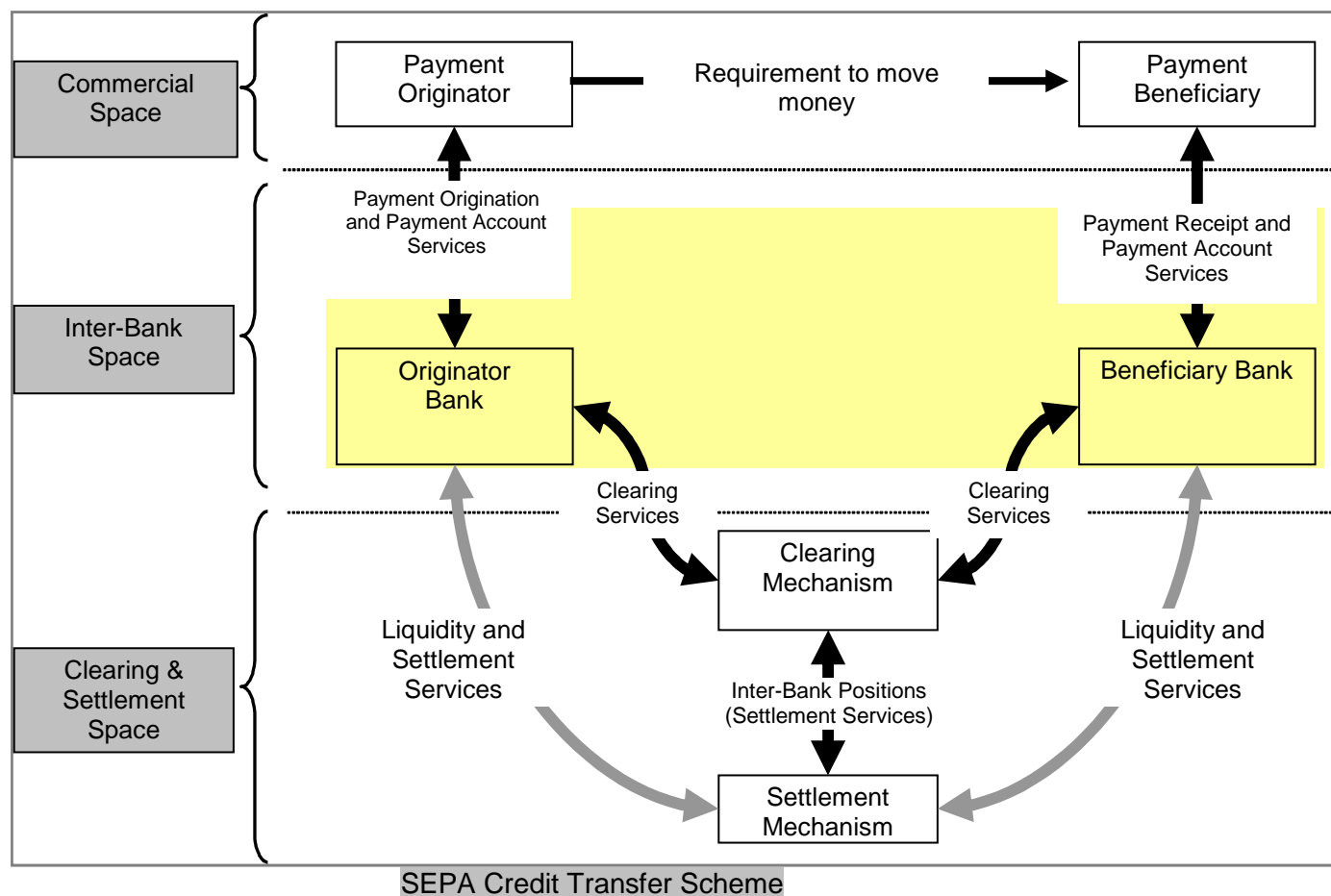
The following table shows the types of transactions affected and those not affected by the SEPA SCT scheme in Hungary.

	<i>Current payment instruments in use in Hungary</i>	<i>SEPA instrument</i>	<i>Remark</i>
<i>HUF*</i>	Giro transfers	Not covered by SEPA	SEPA will not affect HUF payments in the short-term. However, HUF payment mechanisms may need to be adjusted to the SEPA schemes before introduction of the euro.
	VIBER (Real Time Gross Settlement System) transfers	Not covered by SEPA	
	Other paper-based instruments (cheques, postal payment vouchers, etc.)	Not covered by SEPA	
	Cross-border HUF credit transfers	Not covered by SEPA	
<i>EUR</i>	Domestic EUR transfers	<b>SEPA Credit Transfer</b>	These payments are transacted and cleared through accounts with foreign financial institutions
	SEPA-compliant EUR transfers to EU Member States, Iceland, Liechtenstein, Norway and Switzerland		
	Non-SEPA-compliant transfers and transfers outside SEPA	Not covered by SEPA	
<i>Other</i>	Domestic transfers in other currencies	Not covered by SEPA	
	Cross-border transfers in other currencies	Not covered by SEPA	

\* SEPA will not affect HUF payments in the short-term. However, HUF payment mechanisms may need to be adjusted to the SEPA schemes before the introduction of the euro.

<sup>8</sup> A list of SCT participant banks is available on the EPC's website: [www.europeanpaymentscouncil.eu](http://www.europeanpaymentscouncil.eu)

The SCT scheme is an inter-bank payment scheme defining a common set of rules and standard procedures for credit transfers in euro. It provides a common level of service and timeframe, which all participants in the scheme must meet as a minimum.



Main features of the SEPA Credit Transfer Scheme:

- SEPA-wide reachability - any customer can be reached\*;
- The full original amount is credited to the beneficiary's account;
- No value limit;
- Maximum settlement time: three business days\*\*;
- Use of IBAN and BIC for account identification;
- A comprehensive set of rules for rejected and returned payments;
- The Originator's reference of the Credit Transfer Transaction (maximum 35 characters).

\* By the end of the transition period, that is, 2010, at the latest.

\*\* Excluding the time required for conversions. The maximum execution time is expected to be further reduced at a later stage.

Hungarian banks, in line with their above described objectives, will support and prefer the use of the SCT across SEPA. This will allow the standardisation of customer-to-bank data requirements. The main elements of this standardisation are as follows:

- the transaction currency is EUR,

- the beneficiary's account number must be provided in the IBAN format in the payment instruction,
- the payment instruction must contain the beneficiary bank's BIC,
- no option to choose as to who bears the charges: the originator and the beneficiary are charged separately and individually by the originator bank and beneficiary bank respectively,
- the payment instruction may not contain instructions for any special procedures.

Transaction execution within a timeframe other than the standard timeframe (such as "urgent" payments) and/or the acceptance of instructions with information not fully compliant with the information requirements as specified in the scheme is regarded as a value-added service. Such transactions are outside the scope of the rules and standards of SEPA and subject to rules and terms and conditions applicable to payments in other currencies and/or payments outside SEPA.

The use of SEPA Credit Transfers in domestic EUR transfers offers an important and forward-looking solution for these types of payments, underlining the same nature and equal treatment of current domestic transfers and transfers under the new SEPA schemes.

## 2. SEPA Direct Debit (SDD)

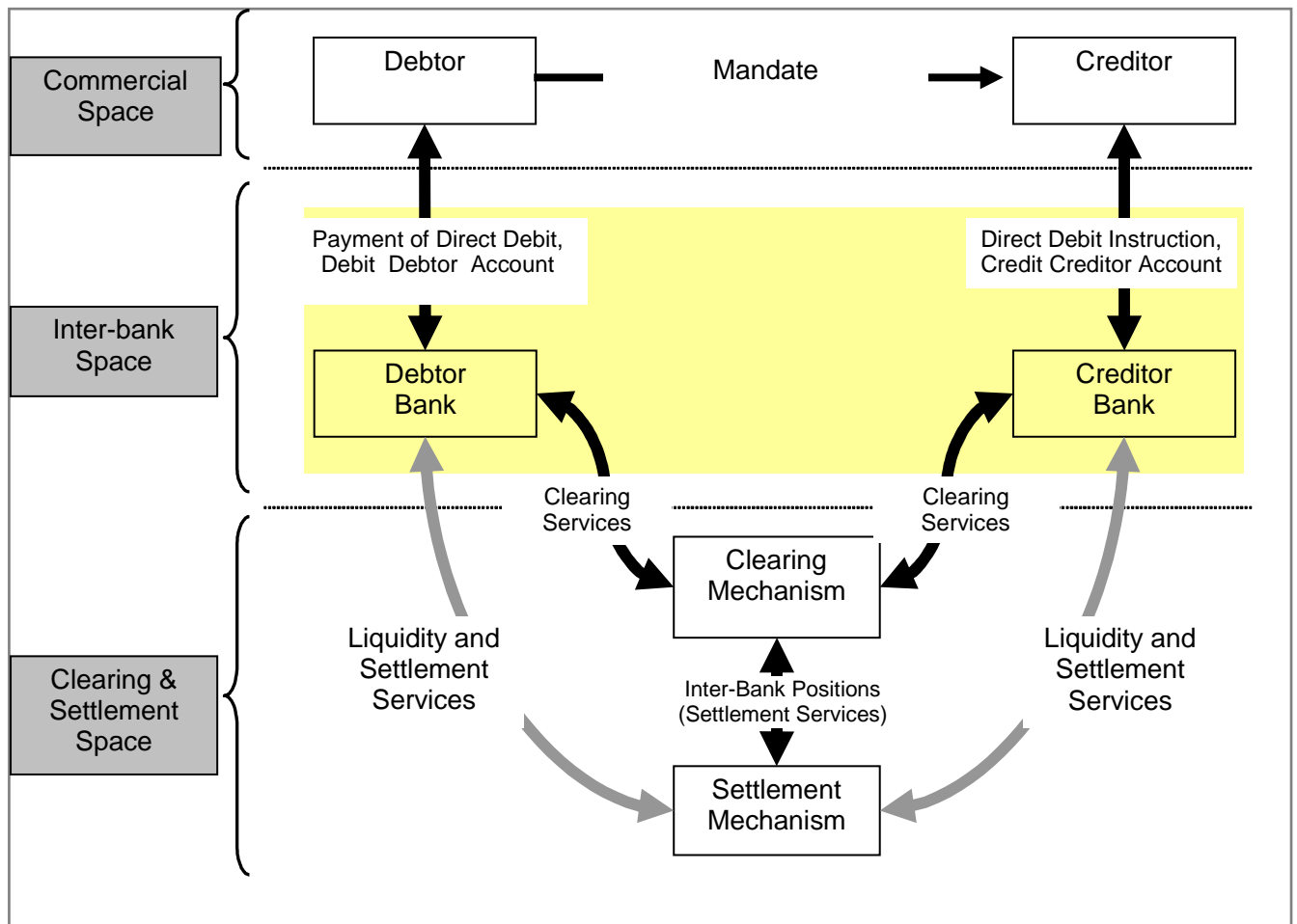
Banks in member states may apply the SEPA Direct Debit Scheme in domestic payments before November 1, 2009, if their national payments legislation so allows. The transposition of the Payment Services Directive into the national laws of all member states will allow the full implementation of the SDD Scheme within SEPA.

First, the description of the SDD Core Scheme was completed, concluding the first stage of development of the Scheme. Then, descriptions of the Business-to-Business (B2B) and e-mandate services were published at the end of 2007.

The following table shows the types of transaction affected and those not affected by the SEPA SDD Scheme:

	<i>Payment instruments in use in Hungary</i>	<i>SEPA instrument</i>
EUR	EUR collections within the EU	SEPA Direct Debit
	Domestic collections in EUR	SEPA Direct Debit
HUF	Direct debit	<i>Not covered by SEPA</i>
	Prompt collections	<i>Not covered by SEPA</i>
	Deferred payment collections	<i>Not covered by SEPA</i>
	Documentary collections	<i>Not covered by SEPA</i>
	Cheque collections	<i>Not covered by SEPA</i>
Other	Documentary collections in SEPA Member States	<i>Not covered by SEPA</i>
	Domestic documentary collections in EUR	<i>Not covered by SEPA</i>
	Documentary collections in non-SEPA Member States and other currencies	<i>Not covered by SEPA</i>

The SDD scheme is an inter-bank payment scheme defining a common set of rules and standard procedures for direct debits in euro. It provides a common level of service and timeframe, which all participants in the scheme must meet as a minimum.



SEPA Direct Debit Scheme

Main features of the SEPA Direct Debit Scheme:

- SEPA-wide reachability - direct debits can be made to any receiver;
- The debtor gives the mandate to directly to the creditor;
- Each mandate must contain a unique mandate reference;
- The creditor must notify the debtor at least 14 days before due date;
- The debtor bank must receive the collection instruction at least 5 days before the due date for one-off and first-time collections and 2 days before the due date for recurrent collections;
- The amount is debited to the debtor's account and credited to the creditor's account on the same day;
- The full collection amount is credited to the creditor's account;
- No value limit;
- Accounts identified by IBAN and BIC;
- A comprehensive set of rules for cancellation, rejects, reversal, refund, revocation and returns.

Hungarian banks consider that the SEPA Direct Debit Scheme is fundamentally different from the current Hungarian practice, with different associated risks; therefore, the implementation of the Scheme in Hungary will require significant preparations from banks and customers. Hungarian banks seeking to adhere to the SDD Scheme will offer SDD services from the date the SDD Scheme is implemented at the SEPA level. It should be noted that not all banks will offer SDD services before the introduction of the euro (some

making available these services only to debtors, given that the provision of these services to creditors will entail special tasks to be performed).

The Hungarian payments system will be largely affected by the transposition of the PSD into Hungarian legislation. Direct debit facilities will have to be redesigned to reflect the new legal framework. Currently there are no definite plans as to whether this should be done through adapting the SEPA DD Scheme rules to HUF payments or otherwise.

### **3. SEPA Cards Framework (SCF)**

Hungarian banks are technically close to compliance with the SEPA Cards Framework. Bank cards are issued by banks in cooperation with international card schemes (VISA, MasterCard, AMEX, etc.). However, the SEPA Cards Framework will require developments in a number of points. A key priority is to ensure EMV compliance by the end of 2010.

In this respect, the status of migration, according to estimated data as of September 2007, is as follows:

- 31% of the 6.7 million debit cards are chip cards with payment function;
- 15% of the 1.7 milli6 credit/charge cards are chip cards with payment function;
- 37% of the nearly 4,000 ATMs in operation can read chip cards;
- 73% of the 38,000 merchant POS terminals can read chip cards;
- 22% of the 10,000 bank/postal POS terminals can read chip cards.

The MNB is closely monitoring implementation, nevertheless, ensuring compliance with the SCF and developing migration plans and executing them is the responsibility of each bank.

The replacement of magnetic stripe cards is the responsibility of issuers, preparing the acceptance terminals (ATMs, POS) for chip card acceptance is the responsibility of the acquirer bank or the owner of the terminal.

## **4. Other payment products**

Letters of Credit are not covered by SEPA.

Cash payments: although the introduction of the euro is not imminent in Hungary, the MNB and the Hungarian banking community seek to adopt the SEPA principles in the area of cash payments, as well. Several initiatives have been made to reduce cash payments in Hungary. The MNB seeks to contribute to implementing these principles through regulation (recycling, bundling, formal requisites, processing, quality, etc.) and through changing logistics paradigms (e.g., the withdrawal of 1 and 2-forint coins from circulation).

Non-electronic payment instruments (such as deposit books, cash transfers, postal payment orders, cash disbursement and cash receipt vouchers, domestic postal payment orders) are not covered by SEPA.

Non-cash payment instruments: The phasing out of cheques is a major task in those countries where the volume of domestic cheque transactions is significant. Cheques are not used in domestic payments in Hungary: they are used in an extremely limited range, exclusively for certain international payments (transport, fixed-amount traveller's cheques). International products have been retained due to existing customer demand; however, they are expected to be gradually phased out as demand falls.

## **IV. Factors affecting the development of the SEPA infrastructure**

In the development of the infrastructure for the SEPA payment schemes in Hungary, the attitude of operators and actors in the payments system in Hungary is determined by the following factors:

- 1) According to the EPC's definition, the Single Euro Payments Area includes the EU and EFTA member states (collectively: the EEA) and Switzerland.
- 2) The EPC expects all euro payments to be executed according to the same rules within SEPA.
- 3) The clearing and settlement mechanisms in Europe are constantly changing and developing. National and pan-European clearing houses are currently positioning themselves in the market and developing their relevant product ranges.
- 4) Hungary is a non-euro-area member state, consequently, domestic payments in Hungary, until its introduction of the euro, will be transacted in Hungarian forint through the local infrastructure.
- 5) The SEPA Credit Transfer Scheme and other SEPA schemes are currently considered by Hungarian banks as international payment transactions.

Preparations for the SEPA infrastructure in Hungary will be governed by the following additional factors:

- 1) As opposed to the euro-zone member states, SEPA payments will affect a relatively low volume of transactions over the next three to five years in Hungary.
- 2) Systems and services for the processing of SEPA mass payments are still under development; in other words: preparations for SEPA will have to be carried out in an evolving and rapidly developing environment.
- 3) The uncertainties regarding the date of introduction of the euro and the available clearing and settlement arrangements will require Hungarian participants to develop strategies that can be flexibly adapted to a changing environment. All this, in a manner that does not deteriorate service quality and can flexibly respond to future market needs.

Banks on the National SEPA Committee agree that preparations should be timed in such a way that all participants are ready for sending and receiving SEPA-compliant payments by the date of Hungary's joining the euro area.

In the light of all this, the following key areas have been identified for implementing the SEPA infrastructure in Hungary:

- 1) From January 2008, banks, by drawing on their own resources and their parent companies' strategies and technologies, will start preparations for receiving SCT payments and allowing customers to initiate SEPA payments. Some banks will be able to receive SCT transactions from the outset, others may need more time to prepare themselves, in accordance with market needs and competitive conditions.
- 2) Banks will (subject to their state of readiness) endeavour to execute their customers' euro payment instructions as SEPA payments, in accordance with the SEPA Scheme rules.

- 3) Banks and the Hungarian Clearing House will jointly review current Hungarian payments regulations, the PSD, the SEPA Rulebooks and domestic and SEPA standards and conduct a gap analysis based on this review. Based on the gap analysis, they will identify
- a. required changes to regulations and standards;
  - b. the services and rules to be applied as Additional Optional Services between market players;
  - c. the timeline for changes, mindful of two key aspects:
    - i. Possible application of SEPA schemes in domestic HUF payments before Hungary's joining the euro area; necessary preparations at the Hungarian ACH.
    - ii. Gradual introduction.

A public consultation on the results of the above review and gap analysis will be conducted with each stakeholder. Accordingly, a preparation guide will be compiled and made available for all actors by the end of 2008.

## **Annex 1**

Declaration adopted by the European Payments Council (EPC) Plenary on 17th March 2005 where the European Banking Industry has fully committed itself to the success of SEPA

“We, the EPC, are committed to building the Single Euro Payments Area (SEPA) and have already delivered SEPA payment solutions which are in growing use by European citizens and corporates. We have approved and are delivering a Roadmap for the full realisation of SEPA.

We will deliver the two new Pan-Euro Payment Schemes for electronic credit transfers and for direct debits. We will also design a Cards Framework to define a single market for cards. The scheme rulebooks and the cards framework definition will be delivered by end 2005, and the services will be operational by January 2008.

We know from feedback from our community in the euro-area that by the beginning of 2008 the vast majority of banks will offer these new Pan-Euro services to their customers.

We are also convinced that a critical mass of transactions will naturally migrate to these payment instruments by 2010 such that SEPA will be irreversible through the operation of market forces and network effects.

SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities (consumers, SMEs, merchants, corporates and government bodies) and supportive public authorities. The community of European banks is strongly committed to this ambitious programme of action, based on self-regulation and a full recognition of the role of market forces and competition.

We have created the necessary conditions for success through commitment and consensus on the part of EPC and all its banking communities.”

Annex 2

**Hungary National SEPA Plan**

<b>SEPA Payment Schemes</b>
SEPA Credit Transfer Scheme (SCT) - domestic payments in euro
SEPA Credit Transfer Scheme (SCT) - cross-border euro payments within SEPA
SEPA Direct Debit Scheme (SDD) - domestic payments in euro
SEPA Direct Debit Scheme (SDD) - cross-border euro payments within SEPA
SEPA Cards Framework (SCF) - EMV compliance


<b>Milestone</b>	<b>National SEPA Committee</b>	<b>National SEPA Association</b>	<b>PSD</b>			<b>€ introduction (full SEPA implementation)</b>
<b>Year</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>&gt;</b>	<b>€</b>



Planned date of introduction and gradual application

### **Annex 3**

EPC documents (available on the EPC's website: [www.europeanpaymentscouncil.eu](http://www.europeanpaymentscouncil.eu)):

- General documents:

- o Making SEPA a Reality
- o SEPA Cards Framework
- o Framework for the Evolution of the Clearing and Settlement of Payments in SEPA
- o EPC Roadmap 2004 -2010

- Technical documents:

- o SEPA Credit Transfer Scheme Rulebook (v. 2.3)
- o SEPA Direct Debit Scheme Rulebook (v. 2.3)
- o SEPA Credit Transfer Scheme Implementation Guidelines (v. 2.3)
- o SEPA Direct Debit Scheme Implementation Guidelines (v. 2.3)
- o SEPA Data Model
- o SEPA Testing Framework