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STET reaction to the Consultation ECB on “Draft Oversight Expectations on Links between Retail Payment Systems”

Dear Sirs,

STET has taken note of the ECB publication “Draft Oversight Expectations on Links between Retail Payments Systems”. As a member of EACHA (European Automated Clearing Houses Association), STET has participated in the development of the EACHA Interoperability Framework used by its members for the intra-CSM clearing and settlement of SEPA schemes transactions. We acknowledge that well-structured oversight on the functioning of links is important as part of the overall industry oversight and governance. STET therefore welcomes the opportunity to provide comments in this consultation round.

We trust our comments will support and contribute to the establishment of clear oversight criteria and standards and foster interoperability by efficient and effective usage of links for all participants in the retail payments industry.

Yours sincerely

Jean-Pic Berry
Chief Executive Officer

STET comments.

Question 1:

Taking into account SEPA, how do you see the evolution of retail clearing infrastructures in Europe and the role of links between retail payment systems?

Answer 1:

Links between retail clearing infrastructures perform a key role in providing the interoperability required by the EU Regulation 260/2012 of 14 March 2012 and expected by the Eurosystem (7th Progress report). The existence of links between the retail payments systems that offer clearing and settlement services is a necessary prerequisite to achieve reachability for PSPs.

The expectation is that migration of the national payment schemes will be the market priority for the period to and slightly beyond February 2014, thus the volume of transactions being exchanged through RPS links are likely to remain at the current low levels. For the period beyond February 2016, following the expiry of national deferrals and transitional arrangements, an increase in the usage of RPS links would be expected as PSPs may progressively reduce the number of RPS participations across SEPA.

Question 2:

Are the definitions of links and the scope of application of oversight expectations clearly defined in the document?

Answer 2:

The document on oversight expectations for links between retail payment systems clearly defines the links and the scope of application of oversight expectations. As a general remark, the Oversight expectations for links between retail payment systems could refer to:

- The SEPA Regulation which specifies, in recital 10, and article 4.2 requires that operators of a retail payment system ensure technical interoperability with other retail payment systems within the Union, and that they shall not adopt business rules that restrict interoperability.
- The Eurosystem's 7th Progress Report, still in place.

Question 3:

Do oversight expectations address all the risks and efficiency aspects inherent in link arrangements?

Answer 3:

The document addresses all the risk aspects inherent in link arrangements. STET welcomes these documents which, together with the principles for financial market infrastructures addressed in the CPSS –IOSCO report, cover not only the risks inherent in RPS links but also the risks within the underlying RPS systems regardless of the clearing and settlement model adopted.

Question 4:

What is your opinion on the risks and efficiency of indirect and relayed links between retail payment systems in comparison with direct links? Do the proposed expectations appropriately address these risks? Have you established any indirect or relayed links with another retail payment system?

Answer 4:

The level of risk related to relayed and indirect links can be considered equal. However, a direct link has the advantage of binding both RPSs through a single contract, which includes risk mitigation aspects of the interoperability link being established. An indirect link could achieve the equivalent but is dependent on the risk mitigation model applied by the underlying RPSs connected, thus there is less visibility to participants on the potential end to end risks. The proposed expectations address appropriately these risks.

In terms of efficiency, relayed and indirect links are subject to certain operational limitations in relation to the synchronisation of clearing cycles between RPSs in comparison with a direct link.

STET has not to date established any interoperability links although a number of direct links have been foreseen for early 2013 and would equally support establishing an indirect link if required by our platform participants.

Question 5:

Which areas of these expectations could be subject to grading according to the importance of the link (proportionality)?

Answer 5:

The document is appropriate, as links between retail payments systems should be subject to oversight; however the volumes processed through these links are extremely limited. Equally RPSs are subject to oversight requirements for their own operations and further requirements are defined in the recently published IOSCO report. In contrast, transactions processed via other channels than the ones mentioned above, such as bilateral exchanges, which account for more than half of the payments processed in SEPA, are not subject to the same strict oversight policy applied to RPSs or their links. A level playing field for payments processing, irrespective of the procedure used to channel transactions would be essential to provide the necessary incentives to PSPs to process payment instruments through the most efficient way allocating risk properly.