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Discussion Paper

MAKING PAYMENTS IN THE INTERNAL MARKET

(presented by the Commission)

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SECTION A: INTRODUCTION AND SUMMARY

Aims

1. The Community's internal market programme is steadily transforming the twelve Member States into a single economic market with free movements of goods, services, capital and people. The financial services sector, worth 8% of Community GDP, is of critical importance to this market, both in its own right, and in facilitating the payments involved in every other part of Europe's economy.
2. As legislative restrictions on capital movements are ended, the removal of remaining barriers to the effective use of the financial system becomes a priority. Within each Member State the integration and growth of the national economy has been greatly facilitated by the development of a variety of different networks for processing financial transactions (payment systems). Similarly, at Community level the benefits of the internal market will only be fully realised if systems for effecting cross-frontier payments operate as effectively as those at national level. This is particularly important for the individual consumer and the small firms doing business across the Community's single market. The prospect of economic and monetary union which will lead to a further increase in intra-Community trade makes it all the more urgent to ensure that Europe is equipped with structures which provide as cheap, as rapid and as reliable a payments service between different Member States of the Community as already exists within them.
3. The creation of an area without frontiers, the free movement of capital and the prospect of economic and monetary union are compelling reasons for examining whether the present systems for cross-border payments provide for the possibility of trans-European networks which ensure the efficient, secure and harmonious operation of the market for the benefit of users.

This examination is consistent with the objectives of the mandate conferred on the Commission relating to trans-European networks.* The latter exercise is designed to ensure that the internal market will be equipped with all the necessary structures to make a reality of free circulation for people, goods, services and capital.

4. Improvements in cross-border payment systems should be fostered by greater competition within the financial sector, but they are also likely to require the active cooperation of the banks and other financial institutions most closely involved in them in each Member State and of the central banks as well. The Commission has a role in assisting this process by:
 - seeking to identify the key administrative, political and economic obstacles to be overcome in order to achieve improved payment systems;

* European Councils of Strasbourg (8/9 December 1989) and Dublin (25/26 June 1990) and Council Resolution of 22 January 1990 (OJ C 27 p. 8)

- proposing a structure to bring together the banks and those involved in organising and supervising payment structures to work up concrete proposals;
 - legislating where necessary;
 - ensuring that the Treaty's competition rules are respected.
5. The main focus of the present communication is on retail (rather than wholesale) cross-border payments and on possible ways in which the existing systems for effecting such payments can be improved. The communication is thus written primarily from the point of view of the user of retail payment systems; the concerns and interest, of the suppliers of payment systems (the commercial and other banks) and of the central banks are, however, fully recognised and discussed as appropriate.

Improvements in the operation of payment systems at the national level have usually been the result of private sector initiative, in particular on the part of the banks. The same will be true of improvements in cross-border systems. It is in no way the Commission's aim in the present Communication to seek to impose centralised or monopolistic systems to handle cross-border payments. There is ample room for and much to be gained from competition between different systems. Typically, however, the efficient management of payment systems requires cooperation among the banks and between them and the public authorities. Given the present rapid rate of change in Community financial markets, the Commission's role is to act as a catalyser by bringing together the banks and public authorities from the Member States and stimulating them to develop the cooperation that will be needed to create efficient cross-border payment systems.

6. This discussion paper sets out a framework for this work. It defines the criteria for an efficient cross-border payment system and provides ideas for improvement in the four main payment categories: cash, transfers, cheques and payment cards. The rest of this section provides a short description of the different categories of transaction and means of payment and summarises possible ways in which cross frontier payment systems might be improved. Sections B, C, D and E set out a more detailed assessment of each of the four main mechanisms for effecting cross frontier payments (cash, transfers, cheques and cards).

Categories of transaction

7. Some examples of the main types of transaction leading to retail, cross-border payments are as follows:

payments by an individual:

- to an individual:
 - (a) regularly (migrant worker to family in country of origin);
 - (b) occasionally (gifts or purchases between persons);

- to a company:
 - (c) regularly (life insurance premium);
 - (d) occasionally (magazine subscription);
 - (e) to an individual company in person (tourist paying a hotel);

payments by a company:

- (f) to an individual regularly (salary, pension);
- (g) to another firm occasionally (purchase of raw material);

payments by the public sector:

- (h) to an individual regularly (pension, unemployment benefit);
- (i) to a company occasionally (purchase of final product e.g. computer)

Criteria for an efficient, cross-border payment system

8. In order to assess the scope for improving the efficiency of such channels, it is useful to consider the characteristics that efficient European cross-border payment systems should have. They should:

- speedily effect payments according to clear time-tables, which are respected in all but exceptional circumstances;
- ensure that the (explicit and implicit) costs for those using them are reasonable, known in advance and subject to the maximum extent to competitive market forces;
- clearly delineate the rights, responsibilities and liabilities of all parties concerned;
- meet high standards of security, robustness and integrity;
- be subject to regular monitoring and the control of the risks associated with them;
- not incorporate unnecessary restrictions e.g. on the amount that can be paid over;
- be useable for cross-border payments, including those outside the Community.

9. Many of the systems used for effecting domestic payments within Member States meet all except the last of these demanding conditions. A summary of how well existing channels for cross-border payments meet them and how they might be modified to do so in the future, is provided in the rest of this section.

Cash

10. The main problem with effecting payments via cash is the cost of acquiring it. This cost covers inter alia the cost to its provider of transporting and storing it, the loss of the interest that would have accrued had the provider held an interest-bearing asset instead. In the case of cross-border payments there is an additional cost - the

risk of loss arising from adverse exchange rate movements. Anyone who travels abroad whether on business or as a tourist is familiar with this exchange rate cost which is represented by the differences between the buying and selling rates for different currencies.

11. This risk of loss arising from exchange rate movements has been reduced by the success of the ERM in bringing about greater exchange rate stability. But it can only be fully eliminated by the movement towards EMU, and in particular the irrevocable fixing of exchange rates between Community currencies in the final stage of monetary union. In the event that a single currency is not introduced immediately at the start of phase 3 of EMU, national currency denominations could continue to exist, although their value would no longer fluctuate, as for example separate Belgian and Luxembourg currencies currently circulate within a monetary union between the two countries. One option would be for national banknotes to carry a clear indication of their ECU value printed on them. Banks would exchange them at par value for the notes of other Member States, with immediate cost-savings for tourists and travellers.

Transfers

12. At present transfers are effected mainly through the channel of correspondent banking. The problem with this route is that a number of banks can be involved in what remains often a manual (and so expensive) process of handling one transaction. Neither the costs involved, nor the time which will elapse before the beneficiary has use of the funds, can always be made known with certainty to the originator.
13. In the Commission's view, additional, more efficient ways of effecting cross-border transfers should be examined as a matter of urgency. Four proposals, which are not mutually exclusive, that have been made, are described in the paper, with that building on the Automated Clearing Houses (ACHs) that exist in most Member States to handle domestic credit and debit transfers, being explained in most detail.
14. Some banks have indeed already reacted to the problems set out in paragraph 12 by providing electronic bridges between ACHs in different countries, to allow payments to be presented to receiving banks as ordinary domestic credits are. Such developments are certainly helpful and the Commission welcomes them. But it is now desirable to examine whether a more structured and standardised solution could provide a lower cost alternative for those making cross-border transfers.

The ACH route

15. If a mechanism could be constructed to link national ACHs, it would be possible for payments to be sent between Member States more efficiently - more cheaply and more quickly - and using less manual processing than now. Such a mechanism could handle most if not all of the types of transaction identified in paragraph 7 above, though some cross frontier transactions by individuals (e.g. one-off payments by tourists or travellers) may be done most efficiently by payment cards or cross frontier cheque-clearing systems.

16. For a linkage to operate between ACHs, an institution - e.g. a bank or a central bank - would be required, to act as an intermediary between any two ACHs for three purposes:
 - (I) converting the format of the payment message from that used by the originator's ACH into that used by the receiving ACH;
 - (II) until irrevocably fixed exchange rates come into effect, converting the amount of the payment from the originator's currency into the recipient's currency;
 - (III) carrying out the exchange transactions and the settlement of the payment flows, by debiting the account of the originator's bank and crediting the account of the recipient's bank.
17. Under this arrangement a credit transfer addressed to a beneficiary in another Member State would be lodged by the originator's bank with its ACH, together with any transfers destined for domestic beneficiaries. The cross-border transfer would be sent by the ACH to the intermediary institution for the latter to convert the format and currency, and effect the settlement; that institution would then submit the credit transfer to the recipient ACH, for sorting and delivery to the beneficiary's bank. Although the mechanism would initially handle credit transfers, it might also be capable, at a later stage, of handling debit transfers and cheques (see paragraph 24 below).
18. The establishment of such linkages between ACHs for handling foreign exchange transactions will require that solutions be found to some important and difficult legal and practical issues. Moreover, the settlement of foreign exchange transactions ultimately involves the central banks. Accordingly, any major new developments in cross-frontier payment systems will need to be examined by the Community's central banks in the appropriate fora so that the implications for the stability of the financial system and for the conduct of monetary policy can be properly assessed. Work on the prudential and monetary policy implications of international netting and payment systems more generally is already being undertaken both by the Group of 10 Central Bank Governors' Committee and (in the context of EMU) by the Committee of EC Central Bank Governors.

Alternative approaches

19. Possible ways of improving cross-frontier payment systems include the following:
 - (I) modifying the correspondent banking framework;
 - (II) banks establishing entirely new arrangements for effecting cross-border transfers;
 - (III) each European bank being eligible to become a member of an ACH in Europe and to participate in the settlement arrangements relating to it.

The first and second of these approaches depend primarily on the initiative of private sector participants in the market and are accordingly not examined in depth in this Communication.

Appraising the options

20. In the Commission's view, the relative costs and benefits of these three and any other possible initiatives, now need to be studied by the commercial operators (mainly the banks) and by the public authorities concerned (primarily the central banks). Such studies would have to be based on realistic assumptions regarding, for example, the scale of future demand for payment services, and the speed of the evolution of the EMU programme. Sensitivity analysis would be essential given the uncertainty associated with such assumptions.
21. The Commission fully recognises that improvements of the type suggested could involve substantial new investment notably by the banks, which might replace to some extent their existing systems. They will clearly only be ready to undertake such investments if they are profitable. The Commission believes, however, that sizeable benefits to the banks could be expected. These would come largely in the form of reduced staff costs and higher profits as the volume of cross-border payments, boosted by the evolution of the Single Internal Market, was further increased by the enhancement of the European payment system infrastructure.
22. It is essential that the feasibility studies, recommended in paragraph 20, encompass not only the pecuniary costs for, and benefits to, the potential investors (the banks), but also take fully into account the implications of improvements for the overall level of systemic risk and the ability of central banks to conduct monetary policy. (see paragraph 18 above)

Cheques

23. Most cross-border cheque payments are at present made using Eurocheques. The Eurocheque system is useful for low-value payments, but needs some improvements in order to ensure its compatibility with EC competition rules (see paragraph 67 below). One such improvement would be to extend it to higher-value payments.
24. The use of other cheques for cross-border payments might be encouraged by the standardisation of their formats, which would facilitate their electronic processing. The commercial case for doing so, however, looks doubtful at first glance; further investigation would nonetheless be appropriate.

Payment cards

25. A great deal has been achieved in recent years in this area, e.g. regarding the inter-operability of payment cards, so that consumers can benefit from the increasing number of cash dispensing machines across the Community. The Commission will remain vigilant in ensuring that any agreements on inter-operability do not transgress the Treaty provisions regarding competition, and that charges for cross-border card use are transparent and fair.

Next steps

26. The completion of the Internal Market programme and the realisation of EMU give a new urgency to the search for ways to modernise the Community's payment systems and to extend them across all Member States. This paper outlines some possible ways of doing this, which are founded upon cooperation between the banks, central banks and supervisory authorities. In the light of responses to this discussion paper the Commission will seek agreement on the strategy for Europe's payment systems, setting out the improvements identified and a time-scale for action. Progress will then be monitored in a Payment Systems Coordinating Group bringing together those most directly concerned on a European level, including central banks, banks and all other interested parties.

SECTION B: CASH

Scope

27. Notwithstanding the increasingly important role of payment cards in settling retail purchases, the great majority - 90% on one estimate - of small purchases continue to be paid for in cash. The use of cash for cross-border payments is normally limited to those cases where payment is made in person, however, for goods or services purchased in another Member State. It is therefore an important means of payment for travellers including tourists and businessmen.

Problems of cross-border use

28. The main problem with using cash is the high level of the transaction costs associated with converting cash from one currency into that of another (see Annex 1, Table B). These transaction costs are recovered by banks and other institutions offering currency exchange services via a spread between buying and selling prices, often coupled with a percentage fee, or flat-rate minimum commission. The overall price charged for such foreign exchange services covers a number of elements in addition to the risk of adverse fluctuation of exchange rates, in particular:

- the cost of storage and transport of notes and coins;
- the interest loss;
- part of general overheads.

In addition, the institution providing the service will seek a profit on the service provided (at least where there is no account relationship). During the first 2 phases of EMU the Commission considers it is important that the charges that are thus levied, are reasonable and fully transparent to those bearing them.

Future solutions

29. The start of the last stage of EMU, when exchange rates will be irrevocably fixed, would eliminate one major element of the cost of converting one currency to another, namely that associated with the risk of exchange rate fluctuation. The other elements would remain, unless bank-notes from other EC countries could be reissued locally. If however a single currency was then to emerge all cost would disappear.
30. In the event that some time were to elapse before the single currency was introduced, one way of easing the transition after exchange rates have been irreversibly fixed would be to provide "interoperable banknotes", primarily denominated in national currencies, but also incorporating equivalent ecu values.

31. Pending full acceptance in practice by all economic agents of bank-notes from other EC Member States, banks could be required to accept such notes at par value. National central banks would be obliged to accept such notes, to the extent that they were not retained within the banks for further use. In practice, once the general public and retailers became aware of the fact that notes need not in all instances be converted into domestic ones, the demand to exchange them for "national" bank-notes should diminish.

32. The facility for individual Community citizens of being able to exchange national currency notes into other EC currencies at par value would be of major importance in making monetary union a practical reality, and providing immediate benefits.

SECTION C: TRANSFERS

33. This section is structured as follows:

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Scope

34. The term transfer is employed here to denote the transfer of value from one bank* account to another that occurs after a payment order has been made at the originator's bank, and the account of the beneficiary (at the same or another bank) has been credited or debited. However, transfers which meet this definition, but which are related to securities transactions, are outside the scope of this communication, partly because they are already the subject of scrutiny in other fora, but also because they give rise to issues that are quite distinct from those arising from other types of transfers.
35. Transfers can be for a whole range of different values, large, as well as small in contrast to the other channels of payment considered in this paper (cash, cheques and cards) which are typically used for relatively small amounts. Certain systems for effecting transfers are, however, used primarily for large value transfers. While those large-value systems share many of the characteristics of the retail systems (e.g. the role of a central bank or other central institution as settlement agent), they are not examined in further detail in this communication. From the users' point of view these systems are already relatively efficient. Some large-value transactions benefit from economies of scale (see paragraph 44).

* Including post office accounts - see Annex 10 regarding the general role of the postal administrations in the payment process.

36. A special characteristic of these large-value systems is that they have to meet more demanding criteria than retail systems. In particular, they must be stable and function in a predictable manner, in order, inter alia, to allow the effect of the open-market operations carried out by central banks to be accurately forecast. In addition they must contain safeguards to minimise the potential risks that central banks might incur from providing final payment facilities to the banking system. As Europe moves towards a single currency it will clearly be necessary for the EC's monetary authorities to assess the implications of these requirements for the future architecture of the European large-value system infrastructure. But this assessment cannot be undertaken without considering other fundamental and complex issues, including the structure of the European System of Central Banks (Eurofed) itself and the type of monetary policy it will conduct. These issues are not considered further in this paper.

Intra-national transfers

37. Transfers within individual Member States usually go through a clearing house and are then settled in accordance with the arrangements established by the participants of the system in question. The role of the clearing house is first to receive information from each of its members (normally banks) on their various payment flows and then to calculate the net amount each member owes to, or is owed by, the clearing house, at a specified time. In itself, this is a calculation, not a payment, system, since a payment system necessarily involves final settlement. However there are usually well-defined settlement procedures for the members of a clearing house which involve transfers of value across members' accounts with the central bank or some other designated central body.
38. The data that members submit to the clearing house may be recorded on paper or magnetic tape, or computer diskette, or sent by direct communication link. In the latter case the clearing house is referred to below as an "automated clearing house" (ACH). ACHs exist in every Member State (see Annex 8).
39. ACHs can also handle cheque clearing provided that the cheques have been dematerialised and the data contents processed automatically (avoiding the need to physically present the cheques).

Assessment

40. The payment systems used for domestic transfers work well in most Member States, when judged in the light of the "criteria for efficiency" spelled out in paragraph 8 above. This situation reflects the far-sighted investments made by the banks in the national payments system infrastructure over a long period.

Cross-border systems

41. Most cross-border transfers are effected using a very different system to that in use domestically. It is known as "correspondent banking". In the simplest cases, only two banks are involved in this system, the originator's bank in country A, and the beneficiary's bank in country B. In this case, the originator's bank can make a transfer to the beneficiary's bank by:
 - (i) debiting its account in country B with the beneficiary bank, and instructing the latter to credit the beneficiary's account;or
 - (ii) the originator may credit the account that the beneficiary's bank has with it in country A and instruct the beneficiary's bank to credit the beneficiary's account in country B.
42. The passing on of transfer orders from the originator's, to the beneficiary's, bank, is very often undertaken via SWIFT, an electronic message transmission mechanism (see Annex 4).
43. In practice, however, the beneficiary often does not have an account with a bank that is directly "linked" to the originator's bank, in the sense of one or both of these banks having accounts with each other. In such cases, it is not a "correspondent" of the originator's bank and the transfer will pass to another bank which is a correspondent before feeding through to the beneficiary's bank. Three or more banks can thus be involved in a cross-border transfer, which is more than are required for domestic transfers.
44. Correspondent banking has several drawbacks, particularly for low-value transfers (high-value transfers by contrast are effected relatively efficiently):
 - (i) the costs can be high, especially in relation to low-value transfers, since several banks can be involved in a given transfer, each incurring costs that must be paid for;
 - (ii) it may be costly for banks to maintain correspondent balances with each other;
 - (iii) it may be difficult for the originator's bank to give the originator a binding estimate either of how long it will take, or how costly it will be, to effect a given transfer.
45. Such problems mean that the conditions for an efficient payment system in paragraph 8 are frequently not met. Thus cross-border transfers within Europe can be significantly less efficient than intra-Member State transfers are. The key issue is therefore how they can be made more efficient.

Proposals for Improving cross-border transfer systems

46. Various proposals (which are not necessarily mutually exclusive) for improving the efficiency of cross-border transfers have been put forward including the following:

- (i) piecemeal improvements to the correspondent banking system;
- (ii) banks and/or central banks could set up new systems, based neither on the ACH, nor the correspondent banking, models described earlier;
- (iii) every European credit institution could be made eligible to become a member of any ACH in Europe, and to participate in the settlement arrangements - often via the holding of an account with the central bank - relating to it;
- (iv) national ACHs could be linked together, so that cross-border as well as domestic transactions could be routed through them as an alternative to the correspondent banking system. This might subsequently lead to the formation of one or more Pan-European ACHs.

Preliminary assessment

- (i) Improving the current system

47. Proposal (i) in paragraph 46 could well mean lower costs and less uncertainty than under present arrangements. However, these efficiency gains may be significantly reduced depending on the manner in which the risks (see paragraph 58) implicit in such schemes are handled. A priori it is hard to see how refining the system of correspondent banking could lead to all cross-border transfers being effected as efficiently as domestic transfers are.

- (ii) New systems

48. While new systems for particular categories of cross-border transfer have been proposed (e.g. the ECU clearing system, see Annex 9) no such schemes for the generality of cross-border transfers have yet been formulated.

- (iii) Right of banks to join other Member States' ACHs

49. The proposal advanced here is that if banks are free to branch and offer services throughout the Community from 1993 on, by virtue of the Second Banking Coordination Directive, they should be automatically eligible to participate in other Member States' clearing and payment systems too. If so they would be free to join other Member States' ACHs and have accounts with the settlement agents associated with them (which would often be central banks) - this freedom, if exercised could, in principle, greatly enhance the efficiency with which banks effect cross-border transfers.

50. This suggestion is certainly attractive and merits further examination. One particular aspect which will need to be carefully considered is how the settlement institution - normally a central bank - would be able to assess the effect of commitments elsewhere (in other payment systems) on the overall liquidity of all the banks that might want to have accounts with it, and thus decide on the type and scale of services, eg overdraft facilities, it was willing to offer them. (There are some 10,000 authorised banks in the Community). In such circumstances settlement banks might quite reasonably decide not to offer overdraft facilities to these banks - members of the ACHs would then have to maintain very high balances in their settlement bank accounts or offer some form of security, and this could be prohibitively expensive for them.

(iv) Linking ACHs

Automated versus paper-based

51. The proposal here is that the ACHs used in domestic transfer systems could be linked together across Europe perhaps ultimately leading to a Pan-European clearing house. The links suggested would only be between automated clearing houses since:
- (i) paper-based systems are perceived by the banks as increasingly anachronistic;
 - (ii) linking ACHs would complement the growing use of Electronic Data Interchange (EDI, see Annex 5);
 - (iii) paper-based systems cannot easily be linked together over large distances.
52. Links could be constructed between ACHs in those Member States that have them, so that a cross-border, as well as a domestic, credit transfer, could be lodged by the originator's bank with its ACH. The cross-border transfer would then be passed onto the ACH in the beneficiary's country for his/her account to be credited.
53. In order for this to work, an institution would be required to act as an intermediary between any two ACH's for three purposes:
- converting the format of the payment message from that used by the originator's ACH into that used by the receiving ACH (unless they used the same format - the question of how to harmonise message formats could be addressed by the EDIFACT Group, see Annex 5);
 - converting the amount of the payment from the originator's currency into the recipient's currency;
 - carrying out the exchange transactions and the settlement of the payment flows, by debiting the account of the originator's bank and crediting the account of the beneficiary's bank.

This institution could be either public (e.g. the ESCB) or private (e.g. one set up by a consortium of banks).

54. Variants of the core proposal set out in paragraphs 52 and 53 could easily be envisaged; for example debit, as well as credit, transfers could be handled; second, links could initially be developed between pairs of ACHs and it therefore would not be necessary for all existing ACHs to be linked up at the same time. Third this proposal would not entail one set of links. Separate ACHs exist for different types of transfers in individual Member States and it would be possible for separate links to be developed for different kinds of ACH.
55. The core proposal has certain merits, which are less apparent in the other proposals outlined in paragraph 46. First, it is based upon existing systems and would therefore not involve the costly construction of entirely new systems. Second it could exploit significant economies of scale that are presently untapped in this area, e.g. in terms of telecommunication costs, running expenses, foreign exchange transactions costs, etc.).

Feasibility studies

56. It is desirable that all these, and any other ways of improving cross-border transfers should now be discussed by experts from the banks and central banks, together with representatives from existing ACHs, and that feasibility studies of the more attractive of them are then undertaken.
57. Each of the options described above would require substantial investment notably on the part of the banks. Such investments will only be undertaken if they are expected to be profitable. The feasibility studies will therefore need to cover as thoroughly as possible the costs and benefits to the private sector participants funding the investments. In the Commission's view the benefits to the banks could well be sizeable; according to a recent McKinsey survey European banks' net losses on all payment transfers amount to \$23 bn a year, an amount only just exceeded by their \$26 bn gross-profit margins on current accounts. The likelihood of renewed pressure on banks' profit margins lends urgency to the banks' task of devising more cost-effective payment systems. A key variable in assessing profitability will be the expected growth in the level of demand for cross-border transfers. This in turn is likely to be influenced strongly by the impact of the single market and progress towards EMU on cross frontier trade. Sensitivity analysis of the results of the studies to changes in the underlying assumptions will therefore be crucial.
58. However, the feasibility studies should also take into account the major "externalities" that could be involved. The first of these concerns their implications for systemic risk - this is the risk that a chain of defaults could be triggered by the default of one participant in the payment process. A priori this risk is exacerbated in electronic payment systems by their very speed, the enormous volume of transactions that they service, and the wide range of participants in them. Second each proposal has its own implications for the conduct of monetary policy.

59. Considerations such as these are currently under the review of central bank experts in Basle (with both the G10 Central Bank Governors, and the Committee of EC Central Bank Governors (in the context of EMU) involved).
60. It is clearly important that the progress of the work in Basle is kept closely in view and that the fruits of deliberations there are used in the appraisal of the various proposals mentioned above. In this way the prudential/monetary policy ramifications of these proposals will be fully taken into account, without the risk of any overlap between this initiative and the work in Basle. In addition this will ensure that the assumptions used in the feasibility studies regarding the role of central banks in the evolution towards EMU are realistic ones.

Other points

Telecommunication costs

61. Telecommunication costs in Europe generally exceed those in many third countries, in particular the United States. This represents a significant additional cost for Community financial institutions, particularly in cross-frontier transactions. The Commission is seeking to liberalise the Community market for telecommunications equipment and value-added telecommunications services, and examining the costs, in the context of competition policy, of long-distance telephone links. Further progress in improving competition in telecommunication will benefit both financial institutions and consumers.

Cost of transfers

62. The Commission has already set out principles on the transparency of costs and on the time lapses for cross-border transfers in a recent Recommendation (see Annex 6). These principles could and should be strengthened, including the question of value dates, if existing arrangements for such transfers are up-graded, leading to a yet more efficient payment system.
63. It appears that administrative and reporting requirements set by some Member State authorities in relation to cross-border transfers (and certain other payment channels) impose additional costs on foreign transfers in comparison with domestic transfers. The significance of these costs and how they might be reduced are two questions that will be addressed in the context of the follow-up to this paper.

Legal aspects

64. In order for cross-border transfers, or any other payments, to proceed efficiently, it is necessary that the legal obligations of the parties involved, are clearly defined. Work is going on in various fora which should clarify the situation here, e.g. in Basle (under the auspices of the Group of 10 Central Bank Governors) and in the United Nations (see Annex 7). In the light of such work, and reactions to this paper, the Commission will consider whether a Community instrument is required to lay down common legal rules for cross-border payments.

SECTION D: CHEQUES

65. A distinction should be made between Eurocheques and ordinary cheques.

Eurocheques

66. For Eurocheques European banks have already created a transnational system (see Annex 2). It is based on uniform cheques and guarantee cards. Eurocheques are cleared between national clearing centres, managed by banks, which settle with each other bilaterally. The system presently clears cheques, the value of which in local currency may not at present exceed approximately 340 ecu (\pm 600 Swiss Francs). Consideration is now being given to raising this limit substantially.
67. The Community's competition policy has an important bearing on the rules of the Eurocheque system and several issues relating to it are presently under discussion with Eurocheque. Amongst these are the following:
- (i) the structure of the inter-bank commission arrangements;
 - (ii) the transparency of the charges involved in using Eurocheques;
 - (iii) the possibility of extending the Eurocheque system to higher-value payments.

Ordinary cheques

68. The use of cheques other than Eurocheques in international payments* is relatively infrequent - reflecting in part the lack of intra-Community clearing and settlement arrangements for them - but demand could well increase as the Internal Market evolves. However, the general trend in the banking industries is, for reasons of cost and efficiency, to decrease the "paper mountain" and to promote paperless systems wherever possible. It could therefore reasonably be argued that priority be given to improvements in electronic payment systems at this stage.
69. However, it is precisely these techniques and their possible improvement which may yield positive effects on cheque clearing as well. For example, where cheques are cleared through Automated Clearing Houses (ACH's), the linkages proposed between these ACH's in the context of transfers, will also reduce the costs of making cross-border payment by cheque.
70. One barrier to the electronic processing of cross-border cheques is that the machine readable codelines on cheques allowing for their electronic processing (optical character reading and similar techniques) differ from country to country. If compatible standards

* See Annex 1, Table A, for a guide to the use of cheques for domestic payments - no equivalent data exist for cross-border payments.

could be agreed this would permit, in particular, greater reliance than hitherto on "truncation" - the process by which a cheque is dematerialised and the data contents of the cheque processed automatically - thus avoiding the need for physical presentation of the paper cheque and thereby reducing substantially the cost of processing. Electronic processing of cross-border cheques in national clearings might also be facilitated by the use of multi-cheque readers, which could obviate, or at least reduce the extent of, the need for standardisation in the first place. (Indeed this technique is used by Eurocheque to overcome the absence of standardised encoding on Eurocheques.)

71. Further study would be needed to determine the economic potential of these technical possibilities. Their future implementation would in any case depend on prior progress in developing the linkages between ACHs for handling transfers as discussed above.

SECTION E: PAYMENT CARDS

Scope

72. The term "payment cards" is used below to denote credit cards, debit cards and other variants (except for cheque guarantee cards, at least as far as their guarantee function is concerned). They can be used in two different ways: In paper-based transactions the customer presents his card from which an imprint is made on a paper voucher to be signed by the customer. In electronic transactions the customer introduces his card in an ATM (i.e. an automated teller machine) or in an EFTPOS-terminal (i.e. a device allowing for Electronic Funds Transfers Initiated at the Point of Sale) by identifying himself via a Personal Identification Number or similar device.

Paper-based transactions

73. Paper-based card transactions for international use have been made on a world-wide level for many years and have proven a convenient instrument of payment, in particular for the private individual travelling abroad. It is not clear what further improvements could usefully be made.

Interoperability of electronic cards

74. Since 1987 the Commission's policy has been to encourage the "interoperability" of cards (cf. Communication to the Council of 12 January 1987, COM(86)754: "Europe could play an ace - the new payment cards") so that cards issued in a given Member State may be used in ATMs and EFTPOS-terminals in other countries. The specific steps laid down for Member States in the 1987 Communication have largely been taken, and as a result the interoperability of cards at the level of cash dispensing terminals has made swift progress since 1987 (see Annex 3, part 1).

Standardization

75. Interoperability presupposes, first of all, that cards and card readers are compatible, on a technical level, from one country to the other. As far as cards with magnetic stripes are concerned, European standards have been enacted on the basis of world-wide recognised ISO standards; this is one of the aspects where the need for Europe's payment systems to be embedded in wider international systems, has clearly been met.
76. Standards for micro-processor cards are presently being developed by the Comité Européen de Normalisation (CEN/CENELEC). The Commission's policy will be to press for the speedy completion of this work, so as to benefit both the users and producers of such cards, as micro-processor cards not only offer increased security and convenient new applications, but also provide an important market for suppliers of the technology involved, in which European industries have a particular interest. In addition the Commission will study the possibilities offered by, and implications of, "pre-paid store of value cards" which perform the function of an "electronic purse" (see Annex 3, part 2), and could provide a useful means of encouraging ecu-denominated cross-border payments.

Mutual opening of systems

77. Standardisation does not, by itself, create interoperability. The organisers of card systems must decide to cooperate and open their networks and terminals to each other, in order to accept each other's cards in their payment processes. While cooperation is thus necessary in this area, and is in practice developing more and more, it must always be viewed in the light of competition policy. This policy, which is pursued by the competent Commission services on a permanent basis, sets limits to cooperation arrangements, for instance when it comes to agreeing on fees or limiting certain broader agreements to a given range of participants only.
78. The mutual opening of card systems is also affected by developments regarding telecommunications networks and services, and in particular standardisation and ONP - Open Network Provision. These developments will probably most particularly touch the data transmissions involved in electronic card systems and EFTPOS applications. They should mean that a card issuer from one country will find it easier to establish links with retailers wishing to accept his cards at their EFTPOS-terminals in a second country via public telecommunications networks. The retailer will be able to set up a terminal of his own choice which is not "dedicated" to a specific card system. The result will be an opening up of the market as a result of a shift from agreements between card issuers and retailers. In practice it will probably remain necessary for the retailer to cooperate with his local banking community for the final clearing and settlement of transactions (e.g. they will normally require the services of a local bank acting as "acquirer"). The necessary services must be made available under free market conditions and not subject to restrictive practices, reinforcing the importance of competition policy.

Accompanying measures

79. Besides standardization and competition policy, Community institutions can make a contribution to interoperability by accompanying measures as for instance the Commission Recommendation 88/590/EEC (O.J. L 317/55 of 24.11.88) concerning not only the electronic, but also the paper-based functions of payment cards. The transparency of charges involved in the use of payment cards was addressed in general terms by Recommendation 88/590/EEC and is particularly important for cross-border transactions where users should be informed how the exchange rate applicable to their transactions has been calculated.
80. On the basis of this Recommendation, the major European federations representing credit institutions have drawn up a Code of Best Practice for relations between issuers and cardholders. The Commission will review the operation of the Recommendation and the Code, in order to check whether these instruments are achieving the desired results, or whether any further measures may be needed.

SECTION F: OUTLOOK

81. The present Communication offers a first assessment of some of the problems that will need to be addressed if European payment systems are to be improved and possible solutions to them. The Commission welcomes comments on it, including alternative ideas, from all interested parties, in particular the users. Discussion, followed by action, is urgent given the rapid progress being made towards a Single Market, and the passage towards EMU.
82. In view of this urgency the Commission will set up, early in 1991 - following discussion of the paper - a "Payment Systems Coordinating Group".
83. The proposed Group would:
 - (i) assist the Commission by analysing the various proposals made to improve European cross-border payments systems, whether these proposals are contained in the paper, or emerge in the subsequent discussion of it;
 - (ii) coordinate and, as appropriate, sponsor feasibility studies on them;
 - (iii) set out the steps that would be necessary to implement them;
 - (iv) indicate priorities among the various proposals that appeared viable in the light of these studies. (It is likely, on the arguments advanced in this paper, that overriding priority should be assigned to those proposals aimed at increasing the efficiency of cross-border transfers.)
84. There is an urgent need to develop Europe's payment systems and there remains much work to be done, but given the ingenuity of the E.C.'s banking sector and a healthy mix of co-operation on systems and competition on service, the challenge can surely be met to the benefit of all of Europe's citizens.

STATISTICS ON PAYMENTS**TABLE A: Relative Importance of cheques and credit transfer in national payment systems**a) As a percentage of total number of non-cash payment transactions 1988

	<u>Cheques</u>	<u>Paper-based credit transfers</u>	<u>Paperless credit transfers</u>	<u>* others</u>
Belgium	31.0	41.8	12.3	14.9
Germany	9.9	27.4	25.3	37.4
France	62.6	1.5	15.0	20.9
Italy	49.2	43.8	3.7	3.3
Netherlands	17.8	38.2	27.0	17.0
U.K.	54.7	8.7	13.4	23.2

b) As a percentage of total value 1988

	<u>Cheques</u>	<u>Paper-based credit transfers</u>	<u>Paperless credit transfers</u>	<u>* others</u>
Belgium	5.4	93.4	1.0	0.2
Germany	19.2	58.5	13.7	8.6
France	29.9	59.3	8.0	2.8
Italy	23.4	75.4	0.9	0.3
Netherlands	0.2	4.7	93.3	2.0
U.K.	41.9	2.4	49.1	6.6

* Other non-cash instruments are Credit Cards, Debit Cards and Direct Debits.

Source : Bank for International Settlements : Statistics on payment systems
In eleven developed countries, Basle December 1989.

Table B

Buying - selling spreads in percentage terms for foreign banknotes

	Belgium	Denmark (a)	Germany	Greece (b)	Spain	France	Ireland	Italy (c)	Nether- lands	Portugal (d)	UK
BEF	X	8.6	5.0	4.1	3.8	6.7	4.8	1.7	5.8	2.8	6.7
DKK	4.1	X	7.3	4.1	3.8	8.3	5.5	1.9	11.0	1.6	5.6
DM	4.6	1.9	X	4.1	3.8	6.4	5.5	1.8	3.6	1.3	6.2
DR	25.0	15.3	48.2	X	5.6	19.7	6.9	2.1	23.1	-	9.9
PES	5.3	6.9	8.1	4.1	X	10.7	5.5	2.0	15.4	2.4	6.9
FF	5.3	4.7	6.4	4.1	3.8	X	5.4	1.9	9.5	1.6	6.4
Irl £	4.4	4.5	6.6	4.1	3.8	-	X	1.9	10.7	1.6	6.7
LIT	5.0	11.1	7.7	4.1	3.8	11.4	6.1	X	14.0	6.2	6.4
EG	4.9	2.4	2.6	4.1	3.8	6.5	5.5	1.9	X	1.4	6.5
ESC	22.8	14.5	30.0	4.1	5.7	19.2	6.8	1.9	21.7	X	6.7
UK£	5.0	3.3	6.3	4.1	3.8	8.3	3.0	1.7	10.0	1.6	X

- (a) a fixed commission fee of about 20 DKR is charged
 (b) regulated market; banks are free to charge additional fees
 (c) a fixed duty of 500 Lira is charged
 (d) banknote transactions are subject to a tax of 0.9%

Columns denote the place of currency conversion. Figures concern exchange operations involving the local currency on one side of the deal.

THE EUROCHEQUE SYSTEM

Introduction

1. The Eurocheque organisation, which was set up in 1968, is an association of European banks whose aim was to meet the need for international payment systems. The organisation imposes no legal framework on its members and is serviced by the Brussels based company Eurocheque International S.C. The arrangements of 1981 under which the system operated were notified to the Commission in 1982 and exempted by Decision of 10 December 1984 from the provisions of Article 85(1) of the Treaty, until 30 April 1986 being the date on which the initial period of the arrangements ended. Negotiations for a renewal of the exemption, in the light of changes made to the arrangements, and experience of the working of the system, are in hand.

Description

2. The Eurocheque system is based on two instruments, namely a uniform cheque and a uniform guarantee card (which may also serve as a cash withdrawal card for use at automated teller machines (ATM's)). This process of achieving uniformity in the instruments has been achieved gradually over the years. Some 8,000 banks issue eurocheques. The eurocheque when presented with a valid guarantee card is guaranteed by the issuing bank for payment up to a fixed ceiling in each currency (equivalent to \pm 300 Swiss Francs). A guaranteed eurocheque is accepted by all the issuing banks and a number of other banks known as "accepting banks" (in total 225,000 bank branches), as well as by some 5 million retailers in 41 countries. When a eurocheque is paid in to an accepting bank, the accepting bank pays out cash, or credits the account of the payee, to the full amount of the cheque, without making any deduction for its fee. The bank then charges a commission not exceeding 1.6 % (with a minimum of the equivalent of 2 Swiss Francs) to the issuing bank. The cheque is sent for clearing to the national clearing centre of the

accepting bank. In some countries there is one national clearing centre, in others several. The clearing centre of the accepting bank debits the accounts which the clearing centres of other countries maintain with it, by making a single entry corresponding to the total amount of the corresponding consignment of eurocheques from issuing banks in that country. The currency conversion is made by the clearing centre of the issuing bank at the market rate.

Charges

3. The eurocheque is subsequently processed through the issuing bank's clearing centre and debited to the account of the issuing bank with the commission not exceeding 1.6 % for the accepting bank and in some cases with a supplementary commission to cover the processing and clearing costs of the clearing centre. These clearing centre commissions vary from country to country and are either a percentage (in some cases with a minimum amount), or a flat rate fee or a combination. The amounts charged are not governed by the eurocheque agreement.

Value limits

4. One cause of misunderstanding about the operation of the eurocheque system stems from a confusion of the value limits which apply, of which there are two. The limit of the guarantee is, as already mentioned above, ± 300 Swiss Francs (expressed in local currency limits). A higher maximum amount (of ± 600 Swiss Francs) applies to the clearing. A eurocheque whose value exceeds the maximum amount for clearing (currently £ 200 in the U.K. for example) is not processed through the national eurocheque clearing centres, but is dealt with bilaterally between the banks concerned. As a result the cost of clearing and settlement is invariably higher nor is it known in advance.

Eurocheques in France

5. Another cause of complaint arises due to the operation of the eurocheque system in France, where accepting banks charge an additional collection fee to their retailer customers who deposit eurocheques in their accounts, so that the latter do not receive the full amount of the cheque. This practice has encouraged some retailers to charge customers a supplementary fee when payment is made by eurocheque.

Assessment

6. What has been described above is the classic activity of the Eurocheque organisation, i.e. the provision of an efficient and relatively low cost system of cross-border cheque clearing and settlement. It is significant that this has been able to function without any harmonisation of the law relating to cheques, but it has on the other hand required technical standardisation of the layout of the cheque instrument. The lack of standardised encoding of the data on the cheque has been overcome by the use of multi-point cheque reading equipment.

Eurocheque payment cards

7. This note would be incomplete without referring also to the Eurocheque organisation's more recent initiative with respect to the card, which now doubles as an electronic card for cash withdrawals at ATM's. Eurocheque cards were, in June 1990, able to access approximately 20,000 terminals within the Community and this figure is projected to increase to 40,000 by the end of 1991 as more ATM networks become interoperable with each other. This development is in line with what the Commission has been seeking to encourage since its Communication of January 1987 "Europe could play an ace: the new payment cards".

8. In the field of payment cards the Eurocheque card is one major player among several, but in that of cheques, Eurocheque is the only organisation which effectively provides a link between national cheque systems. In studying what steps could be taken to provide an operational E.C. wide clearing and settlement system for cheques, as we move towards EMU, the experience of the Eurocheque system provides a tested model of how this can be achieved.

**INTEROPERABILITY OF PAYMENT CARDS :
STATISTICS AND PREPAID STORE OF VALUE CARDS**

1. INTERCONNECTION OF ATM NETWORKS IN JUNE 1989

	<u>Number of ATM's</u>	open to:		
		<u>Eurocard</u>	<u>Eurocheque</u>	<u>Visa</u>
Belgium*	913	-	829	-
Denmark	176	-	176	176
Germany	5.500	-	500	-
Greece	72	-	-	72
Spain	9.904	4.213	5.014	4.345
France	13.000	575	1.000	3.421
Ireland	313	-	-	167
Italy	4.500	-	1.050	39
Luxembourg	64	-	-	20
Netherlands	1.250	-	450	-
Portugal	470	-	470	470
U.K.	15.429	-	1.200	4.956

Source: European Council for Payment Systems, except for * Belgium (National Bank of Belgium)

2. PRE-PAID STORE OF VALUE CARDS

Electronic payment cards, both those carrying a magnetic stripe and those carrying a micro-processor can be "loaded" with a given value, i.e. electronic information can be stored in the card allowing to operate terminals which provide services at a certain price.

The most current application of this technique is the telephone card which is coming more and more into use in many Member States. At the present stage, telephone cards can only be used at public telephones in those countries in which the card have been issued. However, the Commission has just launched an initiative aimed at developing European standards for card-operated pay-phones. Indeed, the Commission has given a mandate to CEN/CENELEC, in cooperation with the European Telecommunications Standards Institute (ETSI) to create standards necessary for the interoperability of telephone cards.

It should be studied whether further initiatives in this context should be envisaged. Among the possibilities to be looked into, is the idea of "loading" a "pre-paid store of value card" with a given amount in ecu. Of course, this would be easily done if prices for services sold via terminals or prices at vending machines of different kinds would be calculated in ecu. As long as this is not the case, one could examine whether a card, which in this case would have to carry a micro-processor, could itself convert the local currency price into ecu and be "un-loaded" accordingly. While this would not pose a major problem from a technological point of view, a difficulty could however arise: it stems from the fact that there could be fluctuations of the local currency against the ecu; the card, especially if it is used at longer intervals only, could be "out of tune" with the prevailing ecu rate. This difficulty might perhaps be overcome by the use of terminals which could up-date the information in the card.

Another complication with regard to pre-paid cards could flow from the fact, that a rather complicated clearing process would be needed in order to credit the owner of the terminal at which services are sold (filling stations, public transport) and to debit the issuer of the card (normally the cardholder's bank in his home country) accordingly. Nevertheless, if pre-paid store of value cards would be more and more widely used, the creation of appropriate networks might prove commercially rentable to the card issuing organizations.

A last series of questions which needs to be studied in this context is the fact that this type of card might give rise to a double currency exchange transaction (on purchasing the card and again on purchasing the goods or service). A further aspect which will need to be considered in this context are the supervisory implications in cases where the use of the card is not limited to goods or services supplied by the card issuer. It is certainly arguable that the issue of prepaid cards with a wide possibility of use amounts to deposit-taking. Even if this is not technically accurate there is a strong case for supervision of such activity to ensure that the issuer meets his commitments; considerations concerning money volumes might also apply.

S.W.I.F.T.

The Society for Worldwide Interbank Financial Telecommunication is owned by a large number of banks from several countries and has its headquarters in Belgium. It is a message system, by which 2800 institutions from 71 countries exchange on average 1.3 million messages a day. These institutions are mainly banks; however, since 1987 investment firms, securities exchanges and depositary institutions can become participants (not members, but users) of the system. Since May 1990, the system's architecture has moved to an enhanced level of technology (security, speed).

Essentially, S.W.I.F.T. provides for the technical facilities (computers and networks) and for message standards making this traffic possible. The message standards allow for the precise and perfectly harmonized identification of the sending and the destination bank, the type of message (e.g. "payment order"), the value date, the currency and the amount, the beneficiary and other data, whereby the sequence of these data is, of course, preestablished. Thus, for instance, S.W.I.F.T. has developed Bank Identifier Codes (BIC) which amount to a universal standard for identifying financial institutions in telecommunication messages, so to speak their electronic addresses. S.W.I.F.T. cooperates closely with international bodies such as the International Standards Organisation (ISO) and also with EDIFACT (see annex 5). S.W.I.F.T. standards are increasingly used by outside organisations and are thus recognised as de facto international standards.

It should be noted that S.W.I.F.T., is not a payment, but a message system. S.W.I.F.T. does not operate a clearing mechanism (i.e. messages requesting another bank to pay certain amounts are not netted against analogous messages from the other bank to the first). Still less does S.W.I.F.T. participate in the settlement of claims between banks. The banks exchanging S.W.I.F.T. messages will themselves arrange for the clearing and settlement mechanisms (or will have bilateral correspondent relations with each other) which they require for their payment transactions. This is why S.W.I.F.T. as such does not solve the problems posed by the absence of linkages between ACHs of different countries.

ELECTRONIC DATA INTERCHANGE

Electronic Data Interchange (EDI) is a technique which is becoming more and more widespread as companies and administrations see the advantages of exchanging information and messages electronically. EDI is essentially about computers talking to computers, across the telecommunications networks, in order to exchange electronically information previously contained in inter-company mail, such as orders and invoices. Very often paper documents are still printed out by the computer of one company and then posted to another company where the information is laboriously typed into a second computer. EDI increases efficiency, saves time and reduces costs as electronic messages replace these common paper documents.

The Commission (DG XIII) is directly involved in promoting EDI by, for example, increasing the awareness of EDI, coordinating the activities of EDI user groups, studying the legal implications of the suppression of paper documents and helping the development of appropriate standards. These activities are being carried out within the framework of the European Community's TEDIS programme (Trade EDI Systems) which was set up by Council Decision 87/499/EEC of 5 October 1987 (O.J. L 285 of 08.10.1987).

The effective implementation of EDI presupposes the use of standards which allow companies to trade freely with a large number of partners. The key standard in EDI is the EDIFACT standard (EDI for Administration, Trade and Commerce). The United Nations Economic Commission for Europe (UN/ECE) started work in this area in 1985 and the basic UN/EDIFACT standards were adopted in 1987 by both the UN and ISO (ISO 9735). The application of these standards and the development of the corresponding messages is the responsibility of working groups in each rapporteur's region; these groups coordinate their work regularly. The Western European EDIFACT board has user representatives from all EC and EFTA countries, as well as representatives from some international organisations. The function of secretariat is entrusted to the EC Commission. The message development group MD4 deals with the finance sector (banking and insurance) and organisations such as SWIFT and also commercial companies participate in this group along side many banks.

SWIFT has been asked by its Board of Directors to establish pilot groups of representative banks to select and implement a first set of UN/EDIFACT standard messages. These messages will be supported on the SWIFT network and will enable the banks to transfer information between themselves related to their customers' business.

Given that the whole trading cycle from ordering, through delivery, to payment will involve EDI it is urgent to study if and how linkages between ACHs can be promoted in this context.

THE COMMISSION RECOMMENDATION (90/109/EEC, O.J. L 67 OF 15.03.1990)
ON THE TRANSPARENCY OF BANKING CONDITIONS RELATING TO
CROSS-BORDER FINANCIAL TRANSACTIONS

Background to Recommendation

1. An examination of the numerous written questions submitted by Members of the European Parliament and of the complaints addressed direct to the Commission revealed that transfers of funds, and more generally cross-border financial transactions, created a wide variety of problems for both individuals and firms.
2. In addition a survey of small transfers conducted by the European Bureau of Consumers' Unions (BEUC) provided confirmation that a poor service was being offered (losses, excessive time take, price increases bearing no relation to the service provided).⁽¹⁾
3. It was also clear that the public authorities and professional organisations in all the Member States were exerting some degree of pressure on credit institutions to make the cost of banking services more transparent, and that this was beginning to produce results. However, this drive for greater transparency rarely extended to cross-border transactions.
4. As a first step, a Recommendation was adopted on 14 February 1990 to deal solely with movements of funds by means of transfer, and not with cheques and cards, or exchange transactions made in cash.
5. This Recommendation includes a fairly broad definition of transparency since it concerns not just price information in the strict sense. In addition, it contains certain indications as to the methods and time needed for carrying out transactions and as to the procedure for dealing with complaints by users.
6. In order to achieve its objective of making more transparent the information supplied by the institutions concerned, cross-border financial transactions, the Recommendation sets out six principles. In order to illustrate the character of the recommendation, its principles 2, 4 and 5 are reproduced hereafter :

(1) Transfer of money within the EEC, BEUC 76/88, 11 April 1988.

SECOND PRINCIPLE

In the statement relating to a cross-border financial transaction, the institution should inform its customer in detail of the commission fees and charges in its invoicing and of the exchange rate it has applied.

FOURTH PRINCIPLE

1. In the absence of instructions to the contrary and except in cases of force majeure, each intermediary institution should deal with a transfer order within two working days of receipt of the funds specified in the order or should give notification of its refusal to execute the order or of any foreseeable delay to the institution issuing the order, and where different, to the transferor's institution.
2. The transferor should be able to obtain a refund of part of the costs of the transfer in the event of any delay in executing his order.

FIFTH PRINCIPLE

1. The transferee's institution should fulfill its obligations arising from a transfer not later than the working day following receipt of the funds specified in the order unless the said order stipulates a later date of execution.
2. If the transferee's institution is unable to execute the order within the time indicated in paragraph 1, it should, as soon as possible, inform the institution issuing the order and, where different, the transferor's institution of the reasons for its failure to execute the order or for the delay in execution.

THE UNCITRAL DRAFT MODEL LAW ON INTERNATIONAL CREDIT TRANSFERS

Summary description

1. The United Nations Committee on International Trade Law (UNCITRAL) began work on the preparation of a model law on electronic funds transfer in 1987. The scope of the work was soon altered to deal with credit transfers, whether or not made by electronic means. The draft model law will apply to international credit transfers, a transfer being defined as international where the originator's bank and the beneficiary's bank are in different states. The draft model law provides a coherent set of legal rules governing the relationship between the parties involved in a credit transfer namely the originator, the originator's bank, any number of receiving banks, the beneficiary's bank and the beneficiary. Work on the draft model law is at a fairly advanced stage and it is intended to be completed at the working group level by the end of 1990; if this is achieved it could be adopted by UNCITRAL during 1991. Seven EC Member States and the Commission directly participate in the working group on international payments, which is preparing the draft model law.

Scope of the draft model law

2. The draft model law applies to credit transfers, which are payment orders made for the purpose of placing funds at the disposal of a designated person, described as the beneficiary. A credit transfer differs from a debit transfer (which is not covered by the rules) in that the process of transferring funds is initiated by the person who intends to make the payment (the originator) rather than by the person who is to receive payment (the beneficiary). In the latter case the payment is a debit transfer, of which a cheque or a direct debit arrangement are typical examples and is outside the scope of the draft model law.

Main provisions of the model law

3. The draft model law goes through the various steps in a credit transfer, beginning with the obligations of the sender. It defines the circumstances in which a sender must take responsibility for a payment order which is disputed. For example it may be that an unauthorised person has gained access to the authentication procedure agreed between the sender and the bank receiving the payment order (the receiving bank). In such a case the draft model law provides a legal test for determining responsibility.
4. The draft model law defines the time in which a receiving bank must act, either by accepting a payment order or rejecting it and giving notice of the fact to the sender.
5. The duties of each of the parties are specified in turn, from the originator's bank, to the intermediate receiving banks, to the beneficiary's bank.

6. Payment orders must be executed on the day they are received, unless a later date is specified for execution or the order is received after the receiving bank's out-off time for that type of payment order.
7. Provision is made for revocation of payment orders by defining the circumstances and time within which an order for revocation must be acted upon, as well as the consequences of a revocation order.
8. A key feature of the draft model law is the provision for refund in the case of a failed transfer. Known as the "money-back guarantee" it provides that each receiving bank must refund to its sender any funds it has received from its sender, in the event that the transfer does not reach the beneficiary's bank. This provision places the credit risk of the failure of each bank in the chain on the bank which transfers funds to it.
9. The draft model law contains elaborate rules for allocating liability and damages between the parties as well as determining which elements of loss can be recovered. In normal circumstances interest losses will be recoverable but consequential losses will not.
10. Finally, the draft model law will have something to say about the civil law consequences of a credit transfer and in particular about the circumstances in which a monetary obligation will be discharged by a credit transfer. The draft model law may be expected to contain some rules on conflict of laws.

Terminology used in the draft model law

The following sections provide for a series of definitions which should be used throughout the present document, wherever appropriate.

11. "Credit transfer" means the series of operations, beginning with the originator's payment order, made for the purpose of placing funds at the disposal of a designated person. The term includes any payment order issued by the originator's bank or any intermediary bank intended to carry out the originator's payment order.
12. "Payment order" means an instruction by a sender to a receiving bank to place at the disposal of a designated person a fixed or determinable amount of money if :
 - a) the receiving bank is to be reimbursed by debiting an account of, or otherwise receiving payment from, the sender,
 - b) the instruction is to be transmitted either directly to the receiving bank, or to an intermediary, a funds transfer system, or a communication system for transmittal to the receiving bank.
13. "Originator" means the issuer of the first payment order in a credit transfer.

14. "Beneficiary" means the person designated in the originator's payment order to receive funds as a result of the credit transfer.
15. "Sender" means the person who issues a payment order, including the originator and any sending bank.
16. "Bank" means an entity which, as an ordinary part of its business, engages in executing payment orders.
17. A "receiving bank" is a bank that receives a payment order.
18. "Intermediary bank" means any receiving bank other than the originator's bank and the beneficiary's bank.
19. "Funds" or "money" includes credit in an account kept by a bank and includes credit denominated in a monetary unit of account that is established by an intergovernmental institution or by agreement of two or more States, provided that this Law shall apply without prejudice to the rules of the intergovernmental institution or the stipulations of the agreement.
20. "Authentication" means a procedure established by agreement to determine whether all or part of a payment order [or a revocation of a payment order] was issued by the purported sender.
21. "Execution date" means the date when the receiving bank is to execute the payment order in accordance with article 9.
22. "Payment date" means the date specified by the originator when funds are to be placed at the disposal of the beneficiary.

CLEARING SYSTEMS IN TEN MEMBER STATES(*)**BELGIUM**

There are 20 traditional clearing houses, located in Brussels and in 19 towns, where they occupy premises provided by the National Bank of Belgium, which is a member and acts as chairman of the clearing. Items between clearing houses are exchanged by post or in the case of cheques and bills of exchange, by special same-day-delivery courier. The clearing houses only exchange paper-based media.

CEC is an automated exchange system, processing cheques (for amounts of up to BEF 250.000), credit transfers (including standing orders), direct debits and transactions at ATM's and POS terminals. Some important features are:

- truncation, meaning no physical exchange between banks of the payment instruments to be cleared. These are retained by the institution which received them from its customers;
- magnetic tapes and cassettes, diskettes and telecommunications can be used for transmitting data on items to be cleared to CEC and receiving data cleared from it. The telecommunications network allows on-line access to CEC and carries about one-third of all data (at the end of 1989);
- management of CEC by the Central Bank, which recovers all relative costs from the members on the basis of the number of operations exchanged;
- continuous operation, i.e. CEC receives, processes and delivers data 22 hours a day, five days a week.

DENMARK

Both paper-based and electronic payments take place through the PBS, which is an organisation set up by Danish banks, for this purpose. Almost all of the Danish banks participate in the PBS-system.

The clearing of payments operates on a one day cycle. The postal giro system operates its own payment system, but through a set of agreements, settlement takes place between the PBS-system and the giro system via the central bank.

A special feature of the Danish payment system is the direct link between the Danish Securities Centre and the PBS-system. Through this link redemptions of bonds, interest and dividend payments are automatically processed and deposited directly to the security holder's account.

Clearing of cheques is done through PBS-system; there is full truncation and the physical cheques stay with the bank where the cheque is first presented.

Settlement takes place through the participating banks and the postal giro system's accounts at Danmarks Nationalbank (the central bank).

(*) Source : Payment Systems in 11 developed countries (prepared by group of experts on payment systems of Central Banks of G-10 countries); for Spain : own information; for Denmark and Greece : information from central banks

GERMANY

The big bulk of transfers arise in the "giro" networks which the main groups of credit institutions, i.e. the commercial, the savings and the cooperative banks have developed for their members. Payments between institutions belonging to the same network are, in most cases, settled within the network itself. Inter-network payments can either be settled by correspondent banking procedures among the institutions involved; but in most cases the payment instruments (paper based or on magnetic tapes) or data media (electronic) are transmitted to the central banking system. The central bank operates overall giro networks both for local and intercity clearing.

Local clearing is carried out in approx. 200 locations, where the Bundesbank has a branch. This covers cheques, direct debits and other claims as well as credit transfers. The clearing provided by the Landeszentralbank in Hessen for the financial centre of Frankfurt has set up a new and technologically most advanced ACH, called EAF (since 23 March 1990). In its pilot phase it links 14 local banks, accounting for 67 % of all clearing in Frankfurt. This represents the first major steps into the age of electronic clearing in the FRG, comparable to CHIPS, CHAPS or SAGITTAIRE. Unlike these systems, however, the new EAF operates with international standards and Open Systems Interconnection. Thus, EAF seems very well placed for a cross-border linking of ACHs.

For intercity payments (credit transfers and debit collection with gross settlement), the banks use the central bank's giro network to reach any bank in the FRG, especially in cases where participants belong to different giro systems. It can handle paper based as well as paperless payments. Most of the cheques (i.e. all cheques amounting to less than DM 2000) are truncated either by the presenting bank or by the Bundesbank; truncated cheques are credited on the day of presentation and truncation by the presenting bank avoids the charge made by the Bundesbank for truncating cheques itself. The Bundesbank is planning to introduce an electronic clearing system modelled on CHIPS (US system) as an alternative to this paper based system.

At the present stage, however, a lot of the attention with regard to the clearing problems in Germany is focused on the aspects of German unification. Clearing in the GDR is completely centralised and, perhaps surprisingly, completely paperless. However, the paperless system in the GDR is using outdated technology and its standards (sorting numbers, formats of documents) are not compatible with FRG ones. Thus, at some point in time after the German monetary union, the GDR system will be replaced by the FRG systems. Between unification and this point, ad hoc solutions to ensure efficient and safe payment flows between the FRG and the GDR are being implemented.

GREECE

Clearing offices are located in the premises of the Bank of Greece, in Athens, Piraeus and Thessalonici and 57 regional clearing offices.

35 banks and 2 specialised credit institutions (the Postal Savings Bank and the Deposits and Loans Fund) are members of the Clearing System. Operating costs are covered by participating credit institutions.

Cheques in drachmas are cleared in all clearing offices. In addition to cheques in drachmas, the Athens Head-Office clears also interbank payment orders and cheques in foreign exchange. Clearing operations in drachmas are settled through the current accounts that credit institutions hold with the Bank of Greece.

A fully automated clearing system was set up in 1989, initially with the "participation of 13 Greek banks. Called "Interbank System - Dias S.A." It will cover a much broader range of payments than the existing systems.

SPAIN

There are 3 systems:

- the National System for Electronic Clearing (SNCE);
- specific systems for interbank operations co-ordinated by the centre for Interbank Co-operation (CCI);
- Clearing Houses.

The SNCE's operations fall into two distinct parts, namely clearing and settlement. Clearing is effected across a computer network using X.25 lines and an intercommunication protocol known as the Sistema Interbancario de Transmisión de Operaciones (SITO). The system presently covers cheques and will during the course of 1990 be extended to cover transfers. During 1991 and 1992 it is intended to include direct debits and commercial bills of exchange.

Operations cleared over the SNCE system are settled between the participating banks by entry of the resulting balances in the books of the Banco de España.

The CCI provides a system for the exchange of payment data on magnetic media which are cleared in the Madrid Clearing House, with balances being settled over the accounts which the participating institutions maintain with the Banco de España.

The Clearing Houses deal with the exchange and clearing of those paper instruments which cannot be dealt with in the electronic systems. These are spread throughout the provinces and co-ordinated by the Banco de España.

FRANCE

104 traditional clearing houses cater for exchange of paper instruments. Balances are entered in the accounts administered locally by the Banque de France.

Computerised clearing centres which handle:

- Credit transfers, direct debits;
- Bank card transactions;
- Interbank payment orders, automated commercial bills.

Regional cheque record exchange centres, situated in 9 cities, which process cheque data on magnetic media (cheques are retained by the presenting bank), operated by the Banque de France.

SAGITTAIRE, a national interbank settlement system which completes, in francs, international transfers. Managed by the Banque de France, which credits or debits the accounts opened in its books by the 58 members. Payment messages conform to SWIFT standards.

SIT (Interbank Teleclearing System), a net settlement system, designed to replace the computer clearing centres and the cheque exchange centres began its pilot phase in May 1990. Its basic features are:

- direct and continuous exchanges of single messages each covering a whole series of transactions between members;
- automatic transmission of payment messages to the accounting centre by the issuer after authentication of each exchange;
- balances maintained in the books of Banque de France.

A new high value gross settlement system known as TBF (Transferts Banque de France) has been proposed by the Banque de France which would cover those treasury operations which presently use the SAGITTAIRE, clearing houses or are intermediated by the Banque de France.

IRELAND

The clearing system comprises four sets of arrangements:

1. The Dublin Bankers' Clearing is a private members' association of six banks including the Central Bank of Ireland. It is used for the exchange of both the paper debit and credit items and electronic funds transfer transactions. Although there is a physical exchange of some items in the central clearing house, the large majority of credit and debit items are exchanged directly between the clearing departments of the participating banks. The clearing cycle is 2 days. Each participating bank acts as settlement bank for a period of one week, calculating the net balances due to or from each bank. Settlement is effected on the next business day across accounts maintained at the Central Bank. Outstanding settlement balances earn/incur interest at the Central Bank's overnight rate.
2. The Central Exchange was established in 1972. It deals only with cheques and other debit items. It is operated by the Central Bank and has 16 members. Settlement is effected on a same-day basis over participants' accounts with the Central Bank.

3. The special presentations system is a clearing arrangement for high value cheques (IEP 100,000 and more) drawn on and payable at branches located in central Dublin. Funds are provided on a same-day basis.
4. The Daily Interbank Settlement provides for settlement in Central Bank funds of all domestic interbank transactions. This is available for payments exceeding IEP 25,000.

ITALY

Two distinct phases can be distinguished, namely the exchange of payment data and the settlement of the debtor and creditor positions. For the exchange of payment data 50 % is done by mail, 45 % via the clearing centres and 4 % by electronic means.

Settlement takes place either through the accounts held at the Banca d'Italia or through bilateral correspondent accounts.

11 clearing houses and 84 clearing departments make up the clearing. Reform is under way. Wholesale transactions will be handled electronically from initiation to notification. They will use either the "electronic memorandum" system managed by the Bank of Italy or the SIPS system to be managed by the SIA on behalf of the Bank of Italy. The new system will also admit operations processed via SETIF (see below).

There are 3 electronic funds transfer systems:

- SITRAD (interbank data transmission system) managed by the SIA and having as members the major banks;
- STACRI (automated telecom service between Italian savings banks) which is managed by ICCRI (Savings Banks Central Institution);
- SETIF (interbank electronic funds transfer service) managed by the SIA, handles interbank payments such as payment orders and withdrawals from the Bancomat ATM network.

NETHERLANDS

There are 3 interconnected transfer circuits:

- the banks' circuit (commercial, co-op and savings banks);
- Postbank circuit;
- Nederlandsche Bank circuit.

The banks' circuit is based around the Bank Giro Centre which receives debit items and converts them into credit items; financial settlement is effected by a daily clearing through the Nederlandsche Bank.

The Postbank circuit is highly centralised. Paper based orders are converted into machine readable data carriers.

The circuit of the Nederlandsche Bank covers only a limited number of account holders; it operates through a centralised and collateralised on-line intra-day system which completes all orders on the day of receipt on a gross-settlement basis. This circuit serves as the final settlement system for the other two systems.

UNITED KINGDOM

The "Paper" clearings are carried out in London, Edinburgh and Belfast.

The London Clearing House operates three categories of clearing namely:

1. Town clearing for cheques, bank drafts and other items of £ 100.000 or more. This operates on a one day cycle.
2. The General clearing operates on a three days cycle for clearance of cheques and other debit items.
3. The credit clearing processes on a three days cycle bank giro credit vouchers which are encoded to enable machine reading (MICR) sometimes in combination with optical character recognition (OCR).

There are additionally the following paper clearing systems:

4. The UK Eurocheque Clearing Centre in which 14 banks participate.
5. The London US Dollar Clearing enables dollar cheques and drafts to be cleared and settled through CHIPS in New York on the same day.
6. The London currency settlement scheme provides clearing facilities for cheques drawn in (inter alia) DM, Dutch Guilders, French Francs, Italian Lire.

The two automated clearings are as follows:

7. BACS, comprising 14 banks and 2 building societies, and used by some 36.000 sponsored customers who may input data directly. Each entry consists of a number of credit items matched by one debit item for the total or vice versa. BACS operates on a three day cycle.
8. CHAPS, is used for sending guaranteed unconditional payments from one settlement bank to another for same-day settlement of amounts of £ 5.000 and more.

Settlement is made across the members' accounts with the Bank of England for clearings 1, 2, 3, 7 and 8.

The payment clearing systems were fundamentally reorganised in 1985 with the establishment of an umbrella body named the Association for Payment Clearing Services, whose task is to oversee the development of the operational clearings and of the payment industry as a whole. Membership of APACS is open to financial institutions which meet explicit and objective criteria, including being appropriately supervised, holding settlement account facilities at the Bank of England and meeting minimum volume requirements of traffic through the individual clearing concerned. The Bank of England does not have statutory powers in respect of payment clearing systems, nor does it supervise their operations; it is however represented on the boards of all the individual clearing companies and on the various policy-making committees which operate under the APACS umbrella. Its special role is recognised in discussions on public policy issues.

THE ECU CLEARING SYSTEM

1. The aim of this annex is to explain the way that the ECU clearing system works and to examine the scope for, and means of, further improvements in it. It is structured as follows:
 - general introduction;
 - detailed account;
 - scope for improvement;
 - assessment.

General Introduction

Broad description.

2. The ECU clearing system is an electronic off-shore system for clearing ecu payments on a same-day-value basis. It allows for the netting of positions within the ecu clearing banks (45 at present). The current system was set up, and is monitored, by the ECU Banking Association in association with SWIFT and the Bank for International Settlements (BIS).

Key principles

3. An institution - SWIFT on behalf of the EBA (ECU Bankers Association) records and stores all payment orders denominated in ECU, nets them and indicates to each "clearing" bank its global long or short balance. These balances are then "cleared" by overnight borrowings/lendings.
4. While the global sum of such balances is necessarily nil, the balances for individual banks are not so. Those banks with either credit or debit balances must, of necessity, settle their accounts.
5. The key feature of the ECU clearing system is that balances are settled in ECUs, rather than via other means [e.g. settlement in another currency (ies) or settlement 'in kind' by the delivery of securities, goods, etc.]. These settlements are financed by overnight loans from clearing banks with credit balances to those with debit balances. Banks could refuse to make such loans. Nevertheless, until now there has **never** been a credit balance that has not been lent to debtors. This partly reflects the realization on the part of participating banks, that such a case would effectively block up the entire clearing system, because without such loans other banks would not be able to cover their debit positions.

Detailed account

ECU Banking Association

5. The ECU Banking Association was founded in Paris in 1985 and charged, inter alia, with the task of ensuring - in cooperation with the BIS and the company S.S.P. SWIFT Service Partners S.A.* - the daily management of the ECU clearing system and its continued improvement.

* A subsidiary of Swift (Society for Worldwide Interbank Financial Telecommunication) based in La Hulpe, Belgium.

6. Its origin dates back to 1983 when the Commission suggested to a small group of banks that they study the possibility of setting up a multilateral clearing system for the private ECU. Subsequent work with the EIB, the BIS and SWIFT led to the implementation of the ECU clearing system in 1986. The system which included 7 clearing banks in 1986 as compared with 45 now, has changed significantly since 1986.

The 'clearing phase'

7. Banks operating in ECUs, which are not members of the system, i.e. 'correspondent banks', pass their payment orders through an ECU clearing bank (except, of course, if the payee is a client of the same bank as the payer). The payment orders for 'same-day-value' of these non-ECU clearing banks are accepted for 'same day-value' up to a certain hour, which is freely negotiated with their clearing banks. Non-banks must necessarily pass through a bank, either directly through a clearing bank or, initially, through a correspondent bank.
8. All messages corresponding to payment orders in ECUs that are transmitted between ecu clearing banks before the 'preliminary cut-off time**') on a working day, must go through the SWIFT network. Thence they are automatically interpreted and copied into the 'netting computer' managed by S.S.P. SWIFT; in this same process the 'netting operation' is also effected. These payment orders are mainly 'autonomous' in the sense that they are not induced by the clearing system.
9. At 2 p.m. the netting centre determines the preliminary global credit or debit balances of each clearing bank and communicates this figure to each clearing bank. The BIS receives the whole set of figures. The BIS puts the latter, mentioning only the nature (+ or - of the position) on a Reuters page for the continued perusal (until 3.45 p.m.) of the clearing banks, adjusting the list as the balances are settled over this period.

The phase of direct reduction of preliminary balances

10. Between 2 p.m. - the preliminary cut-off time - and 3.15 p.m. - the final cut-off time - those clearing banks with credit, or debit, preliminary balances seek to reduce their balances to ECU 1 Million or less if they are not already below this level. To do this creditor clearing banks lend ECUs to debtor clearing banks. The netting computer then calculates and transmits the final balances.
11. During the next 'sub-phase' - 3.15 p.m. to 3.45 p.m. - 'special transfers' are made to allow a clearing bank to reduce a debtor position that has exceptionally remained above ecu 1 Million. The amounts are sometimes sizeable.
12. Finally, by 3.45 p.m. at the latest, each clearing bank confirms its final netting balance to the BIS, thereby authorising it to balance its clearing account by debiting/crediting its ECU sight account with the BIS with an amount not exceeding ECU 1 million. ECU sight accounts must remain in credit.
13. Any same-day-value ECU payment made to reduce preliminary balances is 'induced' by the working of the ECU clearing system and therefore not 'autonomous'*)

***) Which is 2 p.m. Brussels time

*) No account is given in this Annex of the way that the interest rate applicable to induced (as opposed to autonomous) lending/borrowing operations in ECU, is undertaken, on the grounds that this is peripheral to the objectives of the Annex.

Other points

14. The BIS role is essentially that of an agent.
15. There is no separate clearing system for ECU cheques.
16. While some clearing banks levy no charge on customers making or receiving ECU payments providing that such customers already have ECU accounts with them, others do.
17. Once EMU is achieved the flow of payments within the ECU clearing system is likely to rise sharply and the number of banks wishing to be ECU clearing banks will rise very sharply.

Scope for improvement

18. There are no explicit 'rules' governing the case (see paragraph 4 above) in which the creditor banks are unwilling to make the necessary - by 3.45 p.m. - lending to debtor banks that the latter need to reduce their balances to ECU 1 million.
19. An ECU Banking Association committee has recently been examining this issue and at least two ideas have been aired. Under the first, collateral would be placed with the national central bank (or BIS) by each clearing bank. Providing that the debtor's borrowing requirement is less than its collateral at the central bank, the creditor bank should be prepared to lend it. Unfortunately there remains the problem of what happens if the requirement is greater than the collateral and the creditor bank is not prepared to lend the full amount of the excess.
20. The second solution, which is conceptually neat, would mean the debtor bank borrowing from a bank other than its creditor, and this third bank borrowing in its turn from the original creditor. Clearly this would only work if the credit ceilings of the two lenders in this triumvirate were respected. It would be possible to combine this 'solution' with the first in paragraph 19.
21. The clearing Committee of the ECU Banking Association has approved, on 29 May, a new arrangement to be managed by the BIS under which permanent transfer orders would allow funds from creditor banks to be channelled to debtor banks.
22. The Association is also able to report that certain central banks (Bank of England and Bank of France) are prepared to complete the BIS facility by specific measures guaranteed by deposits of securities or ECU.

Assessment

23. At this stage it is only possible to identify one problem and even that is of a hypothetical, rather than practical, nature. It would appear that the ECU Banking Association has this matter under consideration and there seems little scope for a Commission role here. It might be useful to obtain figures from a sample of banks on the costs imposed on the autonomous transactions of end-ECU-users and to check with the market and central banks that the analysis in this note is sound and comprehensive.

THE POSTAL SYSTEMS

Postal administrations of 26 European countries cooperating in the context of the "Conférence Européenne des Administrations des Postes et des Télécommunications (CEPT)" (which itself is a world-regional sub-area of the Universal Postal Union) are making inputs into Europe's payment systems in various ways, in particular as providers of payment services and of telecommunications infrastructures used for transfers.

Postal administrations which provide payment services are: two private postal banks (British Girobank and Dutch Postbank) as well as three public autonomous postal financial institutions (Deutsche Bundespost Postbank, Caja Postal Español, Postgiro in Denmark); the postal financial institutions in other Member States form part of the general postal administration (additionally, most countries have postal or "national" savings banks). Besides more specific services not directly relevant for this Green Paper (e.g. postal traveller cheques, postal orders etc.) most of these institutions run postal cheque systems (except in Ireland, Greece and Portugal). Furthermore, these postal institutions issue payment cards (Visa cards in France, the UK, Spain and Luxembourg; Eurocards in Germany and the Netherlands; specific cards in Belgium, Postomat as well as Diners Club and Visa, and in Denmark, Dencard).

It appears that, despite a certain specificity of their services as compared to the payment systems offered by other credit institutions, the questions arising in this area and relevant for the present reflection are very much the same as those to be studied with regard to card systems and transfers in general. The clearing functions for payment cards and, to a large extent, for postal cheques are the same as for cards issued by or cheques drawn on other institutions. The question which should be studied in particular, i.e. the linkages between ACHs of different countries arises in the same terms for postal and for other banking systems. Only the Scandinavian countries, including Denmark, have a common giro system (Telegiro). Between other countries, links from one postal giro system to the other remain to be created and fall under the same considerations as set out in the main paper.

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