

Self-assessment of the SEPA-compliance of the Electronic Clearing System¹

3 January 2015

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

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

At the beginning of 2009, Latvijas Banka, the Association of Commercial Banks of Latvia and the Treasury of the Republic of Latvia agreed on a common concept for transforming the EKS into a SEPA compliant system which was launched on 9 November 2010.

To ensure interoperability with other SEPA infrastructures and reachability of the EKS participants, the EKS exchanges the cross-border euro credit transfer messages with STEP2, the system of EBA Clearing.

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

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

Yes No

Comments:

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

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

Yes No

Comments:

Pursuant to the EPC SEPA infrastructure framework, the EKS is a SEPA Scheme compliant ACH, applying the Principles for SEPA Scheme compliance:

¹ Terms of reference for the SEPA-compliance of infrastructures, European Central Bank, 4 March 2009 <http://www.ecb.int/paym/sepa/timeline/compliance/html/tor.en.html>

- all payment information is delivered in full and without alteration between the involved SEPA Scheme participants;
- payments are executed within one business day, thus fully complying with the maximum execution time stipulated by the EPC SEPA Credit Transfer Scheme Rulebook, incl. those made between the EKS and STEP2; the system of EBA Clearing
- all charges and fees are collected directly from the SEPA Scheme participants who use the services provided by the EKS, and not deducted from a SEPA payment transaction;
- the agreed SEPA data formats and technical guidelines are used and compliance thereof requested;
- Additional Optional Services as defined in the SEPA Credit Transfer Scheme Rulebook are not provided. Any provision of services for non-SEPA schemes, and any other additional services provided shall not compromise the provisions of the SEPA Credit Transfer Scheme Rulebook. The characters of the Latvian alphabet are used pursuant to a multilateral agreement by banks;
- the appropriate system rules and functional specification incorporating operational rules and access criteria are fully transparent/publicly disclosed;
- at the end of 2011, the EKS compliance assessment was conducted in line with the Bank for International Settlements "Core Principles for Systemically Important Payment Systems", and it has been concluded that the EKS fully complies with all the requirements of the Core Principles applicable to it (I, II, VII, VIII, IX and X);
- the requirements of the PE-ACH/CSM Framework are met with respect to the access criteria, functions performed and governance principles.

3) Are you compliant with the relevant SCT Rulebook?

Yes No

Comments:

The EKS is compliant with the SEPA Credit Transfer Scheme Rulebook.

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

Yes No

Comments:

Not applicable to the EKS. The EKS is a credit transfer system which does not offer direct debit services.

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

Yes No

Comments:

The EKS adheres to the SEPA Credit Transfer Scheme Inter-bank Implementation Guidelines stipulating the use of the UNIFI (ISO 20022) XML message standards.

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

Yes No

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

Yes No

Comments:

Based on the UNIFI (ISO 20022) XML message standards, the EKS only processes the yellow data fields of the subset of a payment message stipulated by the SEPA Credit Transfer Scheme Inter-bank Implementation Guidelines.

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

Yes No

Comments:

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

- 8) Have you adequately tested your processing procedures?

Yes No

Comments:

The EKS processing procedures were tested before the commencement of the SEPA payment processing according to the EPC SEPA Testing Framework. Likewise, prior to the installation of the new versions of the system, such versions are appropriately tested.

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

Comments:

The EKS was tested for the national and cross-border payments prior to the commencement of the SEPA payment processing. All participants in the EKS took part in the tests, and credit transfer (pacs.008), payment return (pacs.004), payment cancellation request (camt.056) and resolution of investigation (camt.029) messages were exchanged, as well as the EKS sent the participants

the payment status report (pacs.002).

The testing was performed in line with the procedures of STEP2 prior to the commencement of the payment exchange with STEP2.

The modified messages are tested in the EKS-to-bank domain with all participants prior to the installation of the new versions of the system.

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

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

Yes No

Comments:

Compliance with the interoperability rules is ensured among banks and the EKS and between the EKS and STEP2.

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

Comments:

Interface specifications and business procedures stipulated by STEP2 are used for the exchange of payments between the EKS and STEP2.

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

Comments:

Not applicable to the EKS.

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

Yes No

Comments:

The EKS is compliant with the SEPA CSM Market Practices. Pursuant to the SEPA infrastructure topologies provided by the EPC SEPA CSM Market Practices, the EKS is compliant with the ACH category.

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

Yes No

Comments:

The EKS is ready to ensure a link with any other infrastructure upon its request, following a mutual agreement with each infrastructure.

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

Yes No

Comments:

Technical and operational procedures have been developed for the link between the EKS and STEP2, the system of EBA Clearing, providing for the SEPA payment clearing and/or settlement between two credit institutions participating in two different payment infrastructures.

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

Comments:

The EKS is ready to establish links on mutually beneficial business terms, where each infrastructure involved in the link shall bear its own costs of establishing the respective link.

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

Comments:

Not applicable to the EKS.

- d. how are the transfers between CSMs settled?

Comments:

The settlement between the EKS and STEP2 is effected through/via the Single Shared Platform of TARGET2. The technical cooperation with STEP2 has been implemented in line with the procedure of an interoperability of the infrastructure.

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

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

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

Yes No

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

Comments:

18 direct participants use the EKS for executing the payments in euro. The EKS participants can reach other banks registered in the SEPA Credit Transfer Scheme (about 47700 banks, including those Latvian banks which are not participants in the EKS) through/by means of the EKS payment exchange with STEP2.

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

Comments:

The EKS executes the exchange of payments with STEP2 which provides the routing of payments for any euro area bank which is a participant in the SEPA Credit Transfer Scheme.

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

Comments:

Information is obtained through the routing database established by Latvijas Banka and updated in cooperation with the EKS direct participants and STEP2. The Functional Specification of the EKS incorporates the routing principles.

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

Comments:

The EKS updates its own routing database following the receipt of information from banks – the direct participants in the EKS who are to deliver, without delay, updated information to Latvijas Banka in the event of any changes. STEP2, in turn, provides Latvijas Banka with the latest information on other banks participating in the SEPA Scheme (the list of banks reachable by STEP2) on a monthly basis.

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

Comments:

For payments which are not addressed to the direct participants in the EKS only one payment channel, STEP2, has been provided, stipulating further criteria for the selection of payment channels.

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

Comments:

For payments which are not addressed to the direct participants in the EKS only one payment channel, STEP2, has been provided, stipulating further criteria for the selection of payment channels.

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

Comments:

The EKS participants may reach any bank participating in the SEPA Scheme and any bank participating in the SEPA Scheme may reach the EKS participants within one business day respectively.

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

Yes No

Comments:

Latvijas Banka ensures full reachability to the EKS participants by exchanging payments with STEP2.

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

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

Yes No

Comments:

Fees applicable to the EKS are publicly available.

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

Yes No

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

Yes No

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

Yes No

Comments:

The EKS participants have to comply with the SEPA Credit Transfer Scheme Inter-bank Implementation Guidelines. The above Guidelines have been incorporated into the Functional Specification of the EKS.

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

Comments:

Not applicable to the EKS.

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

Yes No