



SEPA Instant Payments:

Transforming the European Payments Landscape





Background on SEPA

The Single Euro Payments Area (**SEPA**) Instant Payments Regulation (Regulation (EU) 2024/886) (**IPR**) is a critical part of the European Union's efforts to modernise its financial landscape by facilitating real-time electronic payments across the region. Established by the European Payments Council, SEPA Instant Payments aim to enhance the efficiency, speed, and accessibility of transactions in euro by enabling instant credit transfers between participating financial institutions in less than ten seconds, available 24x7, every calendar day of the year.

The SEPA Instant Payments Scheme launched in November 2017 as an optional scheme. Participation in the scheme varies significantly between Member States. While there is 62% coverage across financial institutions across the EU today, Ireland is far behind with only 5% coverage. As a result of the underwhelming uptake with SEPA Instant Payments, a decision was taken to ultimately mandate all eligible institutions to support the provision of SEPA instant payments.

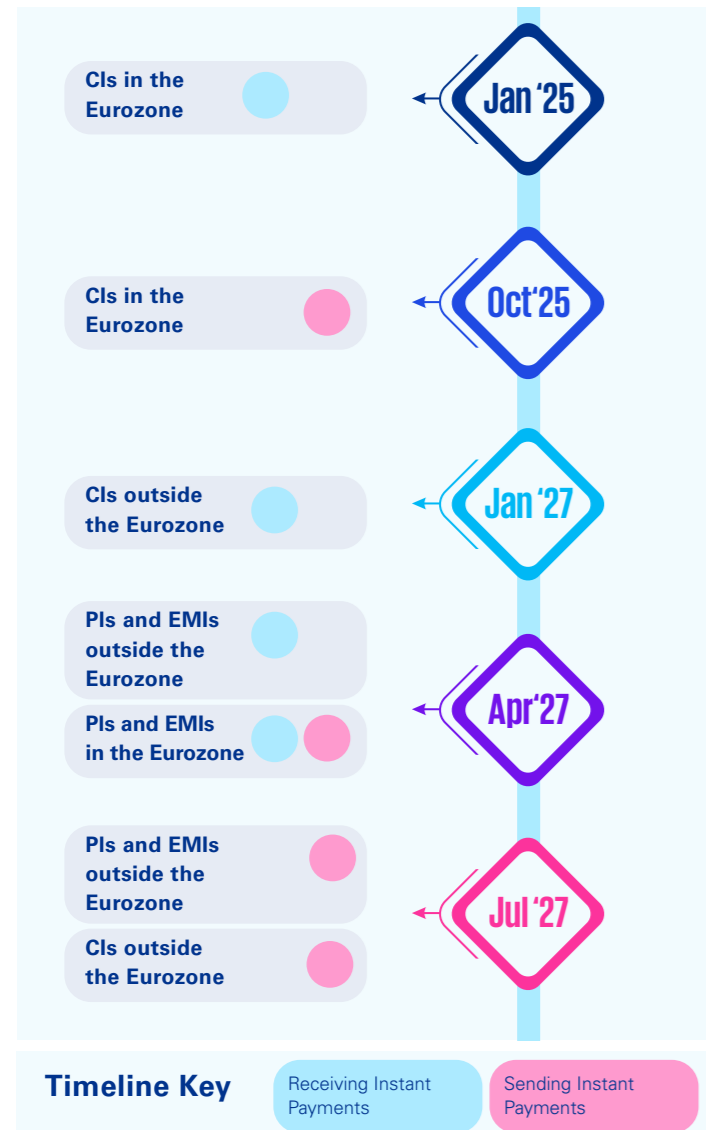
Accordingly, the IPR was implemented through amendments to the existing SEPA Regulation (Regulation (EU) 260/2012) (SEPA Regulation) and other related directives such as PSD2 (Payment Services Directive), with the aim of increasing the integration and efficiency of the European payments market. The IPR entered into force on 8 April 2024 and will be introduced on a phased basis for Payment Service Providers (PSPs) that send or receive credit transfers in euro, with different implementation times for credit institutions / banks (CIs) and payment institutions/e-money institutions (**PIs/EMIs**), and for PSPs located in the Eurozone (i.e. Member States where the official currency is the euro) and in Member States outside of the Eurozone (when processing euro payments).

PSPs other than PIs/EMIs (in practice CIs) in the Eurozone will be the first PSPs that will need to comply from 9 January 2025 when receiving instant payments, and from 9 October 2025 when sending instant payments. CIs outside of the Eurozone have until 9 January 2027 when receiving instant payments, and 9 July 2027 when sending. PIs/EMIs in the Eurozone have until 9 April 2027 when either sending or receiving instant payments. PIs/EMIs outside of the Eurozone have until 9 April 2027 when receiving instant payments and until 9 July 2027 when sending instant payments. For PSPs located outside of the Eurozone, there is a further derogation in respect of payment account denomination in the national currency of the Member State until 9 June 2028.

The following table summarises the phased implementation of the requirements.

Timelines for IPR Implementation		
PSP	Receiving Instant Payments	Sending Instant Payments
CIs in Eurozone	9 January 2025	9 October 2025
PIs and EMI's in the Eurozone	9 April 2027*	9 April 2027*
CIs outside the Eurozone	9 January 2027	9 July 2027
PIs and EMI's outside the Eurozone	9 April 2027*	9 July 2027*

* In respect of non-euro payment accounts, the requirements will not apply until 9 June 2028



The IPR requires significant technical upgrades and operational changes from financial institutions to support the instantaneous processing and settlement of transactions. Firms will need to be able to process high volume, low latency payments at all times (24 hours a day, 7 days a week); a significant change to existing SEPA payments systems which are based on batch processing a Monday to Friday, from 9am-5pm.

Through our work with our clients and the payments industry more broadly, we see prominent themes emerging in the payments space globally, including the global interconnectivity of payment systems, maturity of open banking, rise of PayTech and prominence of digital currencies including Central Bank Digital Currencies (CBDCs).

Notably, we see users demanding instant payments, driven by the increasingly digital economy and the need for payment services to support the speed and convenience of modern e-commerce and instant peer-to-peer transactions.

The IPR is also seen as a strategic response to the proliferation of fintech solutions and blockchain transactions, which have highlighted the limitations of traditional banking transaction speeds. This increased convenience and speed will, however, potentially increase the potential for fraud as well as money laundering and terrorist financing risk, which will need to be properly monitored and assessed.

In terms of compliance, the IPR imposes stringent requirements on PSPs to upgrade their systems to handle the instant processing of payments. This includes ensuring

all participating institutions are capable of sending and receiving payments within the tight timeframes. Additionally, institutions will need to ensure compliance with rigorous security and anti-fraud standards, including payee verification procedures and financial sanctions screening of payment service users (PSUs), and will need to protect transaction and user data in line their obligations under the General Data Protection Regulation (Regulation (EU) 2016/679) (GDPR).

The IPR is a substantial step towards achieving a more integrated and efficient European payments area, promising significant benefits for consumers, businesses, and the

economy at large by facilitating quicker transactions, reducing costs, and enhancing liquidity management across Europe. As stated in the FPAI Open Banking Working Group Paper 2024¹, over €200 billion is locked up in Europe at any given time waiting for settlement in the payment back end. The IPR should unlock these funds and enhance efficiency in the European payments system.

In considering the requirements under the IPR and their practical implementation, there are a number of key themes and questions which are useful to consider, which we set out further below:

- The 10 second payment window
- The precise scope and application to PSPs and accounts
- The geographic scope
- Verification and Authentication protocols
- Compliance and regulatory impact

These themes were also considered in light of stakeholder feedback by the Directorate-General for Financial Stability,

Financial Services and Capital Markets Union (DG FISMA) in its 'Clarification of requirements of the Instant Payments Regulation'

[Click here to find out more](#)



¹Unlocking-Financial-Innovation-Strategic-Approach-to-Open-Banking-Implementation.pdf (bpf.i.e)



Key Themes

10-Second Instant Payment Window

The introduction of the IPR brings a transformative shift in how payments are processed across Europe. Central to this shift is the 10-second rule, which requires that all instant payments be processed, and funds made available, within 10 seconds of initiation, regardless of the time of day. This stringent timeframe poses unique challenges and opportunities for financial institutions, demanding not only robust technological infrastructure but also a re-evaluation of existing operational workflows to support real-time processing capabilities.

What is the exact starting point of the 10-second window?

The 10-second countdown begins at the time of receipt by the payer's PSP of the payment order for an instant credit transfer. The time of receipt is understood to be the moment the payer's PSP receives the payment order after all necessary steps, such as Verification of Payee (VoP) and potential Strong Customer Authentication (SCA), have been completed by the payer.

Do PSPs need to provide the currency conversion on incoming euro instant transactions within the 10 second window?

DG FISMA clarified that the currency conversion in case of sending an instant credit transfer must take place immediately after placing the payment order. As for receiving instant credit transfers, the time limit of 10 seconds will apply.

How do packaged or bulk payment orders fit into the IPR?

Instant credit transfers submitted as in bulk or as a package will need to be executed within 10 seconds from the time of receipt of an individual payment order included in that package / bulk payment order. In simple terms, this means that the moment a payment is unpacked the 10-second timer begins. The payer's PSP must start unpacking a payment package into individual payment transactions immediately after the payment package has been placed by the payer with its PSP. In situations of 'sequential' unpacking of large packages of payment orders, when the time of receipt of individual payment transactions differs, a global notification must be sent within 10 seconds of the last individual.



Scope and Applicability:

There are still a number of questions concerning which entities and types of transactions fall under the IPR's purview. From talking to industry participants, we have found the following questions to be very common amongst industry participants.

Are all accounts provided by PSPs in scope?

The obligation to offer a payment service of sending and receiving instant credit transfers depends on whether an account qualifies as a payment account. The question of what constitutes a payment account has been considered by the Court of Justice of the European Union (CJEU), which found that "the possibility of making payment transactions to a third party from an account or of benefiting from such transactions carried out by a third party is a defining feature of the concept of payment account". Not all accounts will be payment accounts. It is therefore necessary to consider the specific functionality of the accounts in question on a case-by-case basis. For loan or credit card accounts, the question will be whether it is possible to initiate a credit transfer directly from the relevant account e.g. through an online portal, rather than through a separate credit card (card transactions are generally out of scope of the SEPA Regulation). In most cases, therefore, credit accounts simply representing an outstanding balance should not constitute a

payment account, and will not be in scope. As a general rule, in order for such accounts to be in scope of the instant credit transfer requirements, they would likely already be usable for non-instant credit transfers, and need to comply with the existing requirements under the SEPA Regulation. However, as noted, it will be necessary to consider the relevant accounts on a case-by-case basis, and if they constitute a payment account, they will be in scope of the IPR requirements.

What types of transactions are in scope?

Regarding types of transactions in scope, DG FISMA clarified that PSPs are to offer their PSUs the payment service of sending and receiving instant credit transfers in euro if they already offer their PSUs the service of non-instant credit transfers. PSPs not offering or providing the payment service of executing payment transactions through credit transfers will not be in scope.

Are recurring credit transfers in scope?

Under Article 5a(3) of the SEPA Regulation, instant credit transfers can be executed at a specific time in the future. This implicitly facilitates the execution of recurring payments. According to DG FISMA, PSPs that are obliged to offer the service of instant credit transfers must therefore also offer recurring instant credit transfers.

Currency and Geographic Scope:

There is extensive discussion on how the IPR interacts with different currencies and geographic boundaries within the EU, particularly how transactions involving non-Euro currencies are handled and how these regulations apply to various member states.

Do PSPs in the euro area have to offer instant payments in euro from/to 'non EUR' denominated accounts 24/7/365?

PSPs must offer instant payments in euro from/to 'non-EUR' denominated accounts if they offer to their PSUs a payment service of sending and receiving credit transfers in euro from / to such payment accounts. Notwithstanding, for PSPs located outside of the Eurozone providing payment accounts denominated in a national currency of their Member State will not be subject to the requirements under the IPR until 9 June 2028.

Is the scope of the obligation to provide a payment service of sending/receiving instant credit transfers in euro limited to foreign currency payment accounts of EEA countries' currencies, or covers also payment accounts denominated in currencies other than the currencies of EEA countries (e.g. the US dollar)?

On the topic of currencies, it is important to note the scope of the SEPA Regulation (which is amended by the IPR) is restricted to credit transfers and direct debit transactions denominated in euro within the Union. As stated in article 5a, PSPs that offer their PSUs credit transfers in euro must also provide instant credit transfers in euro, regardless of the currency in which the payment account is denominated and regardless of where in the EU (or EEA) the PSP is located. This means that the obligation to provide instant credit transfers is not limited to payment accounts denominated in the EEA countries' currencies, where the PSP otherwise sends or receives transfers denominated in euros.



Verification and Authentication Protocols:

A key element of the IPR are the requirements relating to the verification of payees (VoP). DG FISMA clarified the processes for the verifying and authenticating payments to ensure security and compliance with the regulation. These clarifications addressed concerns about the verification of payees and the authentication measures that need to be in place to facilitate secure and instant credit transfers.

Does VoP need to be provided for every transfer?

Some key points to note are that IPR requires that the payer's PSP ensures the VoP for every credit transfer. It must be performed by the payer's PSP immediately "after the payer provides relevant information about the payee and before the payer is offered the possibility of authorising that credit transfer". Additionally, VoP must be done irrespective of the payment initiation channel used by the payer. Moreover, someone who has been legally authorised by the payer to place and authorise a payment order from the payer's payment account must be viewed as a "payer" when providing the VOP service.

Does VoP need to be provided if the transfer is settled via large value payment systems (LVPS)?

An exception to providing VoP, is that PSPs do not have to offer VoP if the credit transfer is settled via LVPS, as these settlements are excluded from the scope of the SEPA Regulation. Similarly, in the case of a PSU sending multiple payment orders as a package, they can opt out from receiving the VoP service.

Compliance and Regulatory Impact:

As noted, the IPR requirements present potentially significant operational challenges, from a regulatory and compliance perspective, including the need to comply with existing European regulations and integrating new requirements from the IPR with directives like PSD2 (Payment Services Directive) and the SFD (Settlement Finality Directive). Several questions raised by industry stakeholders reflect these compliance concerns.

Should or can instant credit transfers be automatically downgraded to non-instant transactions in case of failure?

It was clarified by DG FISMA that the IPR does not provide for a "downgrade" of a payment order in the event of failure (e.g. if it cannot be executed within 10 seconds). All requirements will need to be complied with, and issues linked to rejections of instant credit transfers arising in the context of sanctions screening are addressed in Article 5d of the IPR.

What duration is considered as short in terms of planned maintenance? How long in advance must PSUs be informed of maintenance?

In its responses, DG FISMA reiterated the obligation on PSPs to inform PSUs of periods of planned maintenance in advance. Whilst no specific duration is prescribed, the expectation is that this should only be for a short time, and PSP level maintenance was normally expected to only last for a fraction of a day. Regarding informing PSUs, there is no exact period on how much in advance this action should occur. However, the purpose is to warn PSUs and enable them to make any necessary arrangements to send and receive credit transfers. The warning period should therefore at least cover the period that is necessary to initiate a payment order for a non-instant credit transfer by a payer that would reach the account of the affected payee during the time of the maintenance of a PSP's IT systems related to processing of instant credit transfers.

Conclusion

The requirements under the IPR as well as the questions considered by DG FISMA highlight the need for PSPs to assess their operational readiness, with non-compliance potentially result in substantial penalties, increased scrutiny from regulators, and the potential loss of market competitiveness. PSPs should therefore take a proactive approach, to assess and align their compliance frameworks and operational systems with the evolving regulatory landscape to ensure both legal conformity and customer satisfaction.





KPMG Payment Expertise

As we approach the implementation of the IPR, understanding and assessing the scope and applicability of the regulation from a legal and regulatory perspective, as well as the operational impact, is key to effective implementation. This will be crucial for every business operating within the EU financial space. The IPR not only mandates rapid transaction capabilities, but also ensures that payment infrastructures are robust, secure, and compliant with modern digital commerce demands. This transition poses significant opportunities and challenges that can affect your business operations and strategic financial planning. Time is of the essence as the first batch of PSPs will need be compliant by the start of January next year.

The changes under the IPR also come in parallel with other significant regulatory changes and challenges which may impact on operational systems, processes, and relationships with third party providers, e.g. the Digital Operational Resilience Act (Regulation (EU) 2022/2554) (**DORA**). We have significant experience providing regulatory and management consultancy, as well as legal and contractual support, to ensure a holistic approach to implementing and operationalising new legal and regulatory requirements.

At KPMG, our deep expertise in payment regulations and financial services positions us ideally to help you navigate these complexities. We understand the nuances of the IPR and are equipped to provide legal and strategic advice and practical solutions tailored to ensure your systems are compliant and optimised for the upcoming changes. We have an international panel of experts who are experienced in helping clients in this space. For further discussion and to explore how we can assist your firm in smoothly transitioning to the new instant payments landscape, please reach out to us. Let's discuss how KPMG can help you turn regulatory requirements into strategic advantages.

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