



## Intraday credit transfer: Frequently Asked Questions and Definitions

### Bank customers enjoy significant advantages

Following 1 July 2012 the execution time of domestic HUF credit transfers will be one business day shorter than before, if you make credit transfer electronically to an account held at another bank, savings cooperative or credit union (hereinafter collectively referred to as: payment service provider).

The state-of-art system is expected to offer considerable advantages to private individuals and corporate customers alike. It will be enough to make credit transfers on the due date (approx. before 4 p.m. on business days), and funds received during the day can then be used for further payments within the same day. In addition, customers (especially corporate ones) can supply and receive more data in relation to a specific credit transfer than up to now.

The purpose of the document *“Frequently Asked Questions and Definitions”* is to provide the most comprehensive information possible on these changes to the customers of payment service providers.<sup>1</sup>

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<sup>1</sup> The current document is a translation; we tried to be as precise as possible. In the case of dispute the Hungarian version is governing. The content of this information does not qualify as legal guidance as regulated in Articles 53-56 of Act XI of 1987 on Legislation, therefore, it has no legal and binding force. Therefore, the statements provided herein shall not be used in any legal disputes.

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## 1. THE PURPOSE, ADVANTAGE AND SCOPE OF INTRADAY CREDIT TRANSFERS

### 1.1. What does the introduction of intraday credit transfers mean? Why was it necessary to introduce the intraday credit transfer system?

**The execution time of domestic HUF credit transfers will be one business day shorter, which is a significant advantage for customers.**

Currently funds transferred between the customers of two payment service providers are credited to the payee's account only on the following business day, provided that the credit transfer is initiated within the bank's final cut-off time. Following 1 July 2012 domestic HUF credit transfer

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orders submitted electronically within the final cut-off time set out for intraday execution (via internet, electronic banking system or telephone, but not by fax) will be executed on the same day. This means that domestic HUF credit transfers will be executed one business day earlier as compared to the current practice.

### **1.2. What advantages do the introduction of intraday credit transfers offer to customers?**

**Not only will domestic HUF credit transfers be considerably faster, but customers (especially corporate ones) will also be able to provide and receive more data than before.**

One of the advantages is that the execution of electronically initiated domestic HUF credit transfers between various payment service providers will be accelerated. As a result, it will be sufficient to submit electronic credit transfers on the due date of the payment obligation (taking account of the final cut-off time set by the payment service provider for submitting the credit transfer order), that is, the payer (debtor) can use his/her money for one day longer. Consequently, the execution time of such credit transfers will be commensurable with that of credit transfers made between accounts kept by the same payment service provider. Therefore, the 4-hour rule eliminates one business day's loss of interest. Following 1 July 2012 payment service providers will debit items submitted after the final cut-off time (e.g. in the evening or at the weekend) only in the morning of the next business day, so until that time they will keep earning interest for the customer.

The other advantage is that in the case of all individual electronic HUF credit transfers it will be possible to provide and receive more data than up to now. This is especially favourable for corporate customers, as it gives them an opportunity for developing and extending automatic communication between the various corporate management systems and the account management systems of payment service providers, as well as for the automated straight through processing of payment turnover executed by credit transfers from end to end (from customer to customer). Such data disclosures are in conformity with the European (so-called SEPA) standards, thus assisting corporate customers with international relations.

### **1.3. What types of transactions does intraday clearing apply to?**

**Electronically submitted domestic HUF credit transfer orders.**

The intraday credit transfer made compulsory by decree (see the "4-hour rule") applies to all domestic HUF credit transfers initiated electronically by the payer (debtor) and to be executed in HUF, i.e. not requiring exchange (conversion) between various currencies, where the payment service providers of both the payer (debtor) and the payee (beneficiary) provide payment services

in Hungary. Possible types of credit transfer: single credit transfer order, batch transfer order, recurring (standing) transfer order.

Additionally, each payment service provider can decide at its own discretion whether to extend the intraday credit transfer system to credit transfer orders not submitted electronically.

#### **1.4. What is regarded as an electronically submitted credit transfer order?**

Credit transfer orders submitted via internet, through electronic banking system or by telephone are regarded as electronically submitted credit transfer orders. (However, credit transfer orders submitted by fax qualify as paper-based credit transfer orders.)

#### **1.5. Will all electronic credit transfer orders be executed on the same day?**

**Yes, if they are submitted within the final cut-off time (approximately 3:30 to 4:00 p.m. on business days).**

All credit transfer orders submitted by the payer (debtor) electronically within the final cut-off time set for intraday execution will be executed within the same day, provided that the required funds and all data necessary for the execution are available. Credit transfer orders submitted to the given payment service provider after the final cut-off time (generally after 3:30-4:00 p.m., but this time limit may vary by payment service provider) are executed in the morning of the following business day.

#### **1.6. Does the "4-hour rule" apply to direct debits and collections?**

**For the time being, it does not.**

For the time being the "4-hour rule" has not been extended to any type of direct debits and collections, therefore the execution times remain unchanged in the case of direct debits, business-to-business direct debits, collections related to bills of exchange, cheque clearing collections, deferred payment collections and documentary collections.

#### **1.7. Does the "4-hour rule" apply to domestic foreign exchange credit transfers?**

**No, it does not, it applies only to domestic HUF credit transfers.**

The new "4-hour rule" applies only to domestic HUF credit transfers, that is, domestic foreign exchange credit transfers and international HUF credit transfers are still subject to the old rule.

## **2. SPEED, SUBMISSION/EXECUTION DEADLINES**

### **2.1. What does the "4-hour rule" mean?**

**The "4-hour rule" is compulsory for payment service providers and means the maximum time of execution between the payment service providers.**

Pursuant to the MNB decree<sup>2</sup>, under the so-called “4-hour rule” following 1 July 2012 the payment service provider of the payer (debtor) must ensure that domestic HUF credit transfers initiated electronically by its customers during the time period (prior to the final cut-off time) set for intraday execution (i.e. execution within the same day) be received by the payee's payment service provider within 4 hours from the point in time when the credit transfer order is accepted. Consequently, the 4-hour time limit is the maximum execution time during which the amount of the credit transfers, as described above, must be credited to the account of the payee's payment service provider, so the average time of making a credit transfer is (normally) expected to be even shorter.

The “4-hour rule” applies to the so-called clearing members<sup>3</sup>, i.e. payment service providers directly connected to the domestic payment system clearing the payment order.

As regards payment service providers connected to the domestic payment system only indirectly (typically some savings cooperatives and specialised credit institutions), the required maximum 4-hour execution time is extended by 2 hours.

Compliance with the “4-hour rule” (or the 6-hour rule in the case of payment service providers indirectly connected to the domestic payment system) is the responsibility of the payment service provider initiating the transaction. Based on this, the payment service provider initiating the transaction must ensure that from the moment it accepts the credit transfer order, the amount of the credit transfer be credited to the account of the payee's payment service provider held at the MNB within no more than 4 hours (or no more than 6 hours in the case of payment service providers indirectly connected to the domestic payment system).

The payee's payment service provider (e.g. bank) must credit the amount to the payee's payment account “without delay”, however, the time requirement of this part of the transaction is beyond the scope of responsibility of the payment service provider initiating the payment transaction. In practice, the payee's payment service provider must receive the data files containing the cleared and settled credit transfer orders, and process them in its own account management system.

## **2.2. When is a credit transfer order regarded to be accepted by the payment service provider?**

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<sup>2</sup> Article 17 of Decree 18/2009 (VIII. 6.) of the MNB on Execution of Payment Transactions, as modified by Decree 15/2010 (X. 12.) of the MNB. (It is available only in Hungarian: A pénzforgalom lebonyolításáról szóló rendelet.)

<sup>3</sup> The list is available at: [http://www.giro.hu/elszamolasforgalom\\_kliringtagok.php](http://www.giro.hu/elszamolasforgalom_kliringtagok.php)

**If it complies with all formal requirements and sufficient funds are available.**

The payment service provider accepts a credit transfer order if it contains all data necessary for executing the credit transfer order, and the credit transfer order is placed by the person (persons) having the right of disposal over the payment account, and if there are sufficient funds<sup>4</sup> available, i.e. the payer's (debtor's) payment account is debited or at least the funds are separated. If the electronic credit transfer order is given outside the payment service provider's business hours, the 4-hour period is not calculated from the time the payer (debtor) submits the credit transfer order, but from the early morning of the next business day, after the payment service provider has checked the availability of the funds, and has blocked such funds from the customer's disposal by separating them (regardless whether it has debited the payment account or not).

### **2.3. What does the "4-hour rule" mean from the payee's point of view?**

**The payee has much faster access to his/her money than before.**

The regulation of the MNB Decree<sup>5</sup> guarantees that in accordance with the "4-hour rule" (see above) the funds received by the payee's payment service provider are to be made available without delay to the payee. In practice, the payee's payment service provider must receive the data files containing the cleared and settled credit transfer orders, and process them in its own account management system.

### **2.4. How many clearing cycles will be executed each day?**

**Payments will be cleared in five cycles starting every 2 hours.**

In the case of items subject to the "4-hour rule", following 1 July 2012 there will be five clearing cycles each day, starting every 2 hours between 8:30 a.m. and 4:30 p.m. According to the central bank's expectations, in the long run, the number of clearing cycles will increase, and instead of the initial clearing performed every 2 hours intraday clearing will be more frequent. On the "substitute" business days held on Saturdays<sup>6</sup> there will be only three cycles.

In addition, the current overnight clearing system will be applied to all transactions not subject to the 4-hour rule.

### **2.5. Will there be a nationally unified final cut-off time for items initiated by the customers?**

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<sup>4</sup> Article 6 (2 of Decree 18/2009 (VIII. 6.) of the MNB on Execution of Payment Transactions.

<sup>5</sup> Article 21 of Decree 18/2009 (VIII. 6.) of the MNB on Execution of Payment Transactions.

<sup>6</sup> It is a common practice in Hungary to provide an extra day between the public holiday and week-end, if any, and in exchange for this extra day one of Saturdays will be a business day. (Remark only to the non-resident readers.)

**There will not be a nationally unified final cut-off time, slight differences may be expected among the various payment service providers.**

The final cut-off-time is specified by each payment service provider at its own discretion, taking account of the final cut-off time set out by GIRO Zrt. (or in the case of indirect connection its correspondent bank) on the one hand, and the time it takes for the given payment service provider to process the received credit transfer orders on the other hand. As regards the final cut-off time, slight differences are expected among the various payment service providers. The MNB – in cooperation with the PSZÁF (Hungarian Financial Supervisory Authority) – will publish and continuously update the final cut-off times of each payment service provider.

We emphasize that customers can submit credit transfer orders continuously – even during a period of 7x24 hours electronically – but only those will be executed on the same day that are submitted prior to the final cut-off time specified for same-day execution and are accepted by the concerned payment service provider (see the conditions of acceptance above).

**2.6. How shall the “4-hour rule” be interpreted if the credit transfer order is received after the final cut-off time specified by the given payment service provider?**

**In the case of credit transfer orders received after the final cut-off time the payment service provider must ensure compliance with the "4-hour rule" on the next business day.**

In the event that a credit transfer order is received by the payment service provider of the payer (debtor) after the final cut-off time specified for same-day execution, the payment service provider must ensure compliance with the "4-hour rule" on the next business day. The maximum 4-hour execution time commences when the payment service provider has accepted the credit transfer order (see the terms and conditions of acceptance above).

**2.7. Is there any change in the method or order of processing as compared to the current practice, if the customer initiates various types of transactions after the final cut-off time applicable to electronic credit transfer orders?**

**This is a bank-specific question, there is no general answer.**

Pursuant to the central bank’s decree regulating the introduction and operation of the intraday credit transfer system the payment service providers are allowed to debit the payer's (debtor's) account with the amount of credit transfer orders submitted after the final cut-off time exclusively on the day of execution. Processing will change at all payment service providers which used to debit the payers (debtors) on the day of acceptance, and the payment service providers will not be able to block the funds, either.

From the customer’s point of view, the advantage of the intraday credit transfer system is that (s)he is free to dispose over the amount kept on his payment account until the credit transfer

order is executed, and may even access the entire sum, regardless whether (s)he has already launched a credit transfer order electronically after the final cut-off time applicable to same-day clearing. It enables the customer, for example, to use the entire balance of his account with a card transaction (shopping or cash withdrawal with his/her card), which may be definitely favourable for him/her in an unexpected situation. In this case, however, the credit transfer order will not be executed, unless further funds are credited to the customer's payment account, despite the fact that at the moment of submission of the credit transfer order (s)he did have sufficient funds available on his/her payment account. Therefore, this requires thorough and cautious liquidity management from the customers in the future.

## **2.8. What happens with uncovered items submitted by the customer?**

**Credit transfer orders which cannot be executed due to insufficient funds will be queued by the payment service provider, or otherwise it will be rejected no later than on the next business day.**

Depending on its agreement with the account holder (Contract, Business Rules, General Terms and Conditions of Contract), the credit transfer orders which cannot be executed due to insufficient funds will be either queued by the payment service provider or rejected on the next business day the latest.<sup>7</sup> The term of queuing commences on the business day following the receipt of the credit transfer order, and its duration depends on the agreement made with the account holder, but it may not exceed 35 calendar days<sup>8</sup>.

In the event of queuing, the maximum 4-hour execution time is calculated from the point in time (taking account of the payment service provider's business hours) when the payer (debtor) receives sufficient funds on his/her account to cover the execution of the credit transfer order, and such cover is blocked on the customer's account either by separating the funds or debiting the payment account with the relevant amount. If the term of queuing does not produce results, the payment service provider rejects the credit transfer order that is still uncovered.

## **2.9. Can intraday processing result in later crediting as compared to overnight processing?**

**In almost every case the customer enjoys advantages following 1 July 2012, because (s)he will have much faster access to his/her money.**

If the current transaction practices are maintained, the customer whose payment service provider sets an earlier final cut-off time for electronic credit transfer orders following 1 July 2012 than

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<sup>7</sup> Article 7(7) a) of Decree 18/2009 (VIII. 6.) of the MNB on Execution of Payment Transactions.

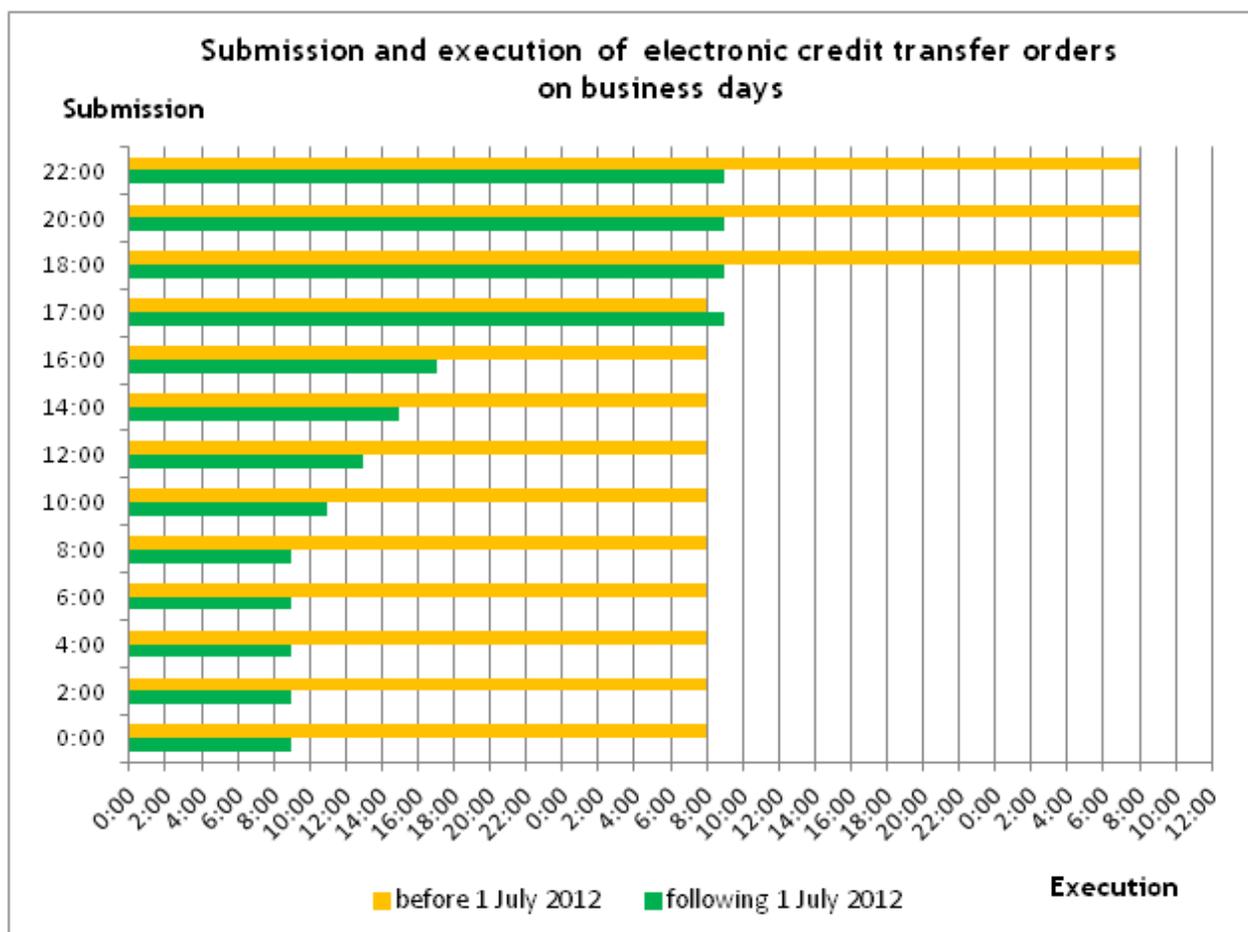
<sup>8</sup> Article 8(1) of Decree 18/2009 (VIII. 6.) of the MNB on Execution of Payment Transactions.

before 1 July 2012, this customer will perceive a somewhat later execution following 1 July 2012 than before 1 July 2012, if the customer submits his/her electronic HUF credit transfer order exactly right between the final cut-off times applicable to these two different periods. The credit transfer order will be executed in the following morning, but slightly later than in the former clearing system.

Under the “4-hour rule” set forth in the Decree the payment account will only be debited on the business day when the credit transfer order is executed.

**2.10. Will there be any change in the rules of submission and execution of electronic credit transfer orders?**

**Customers can still submit electronic credit transfer orders continuously (nonstop: in 7x24 hours). Following 1 July 2012 it will be possible to execute credit transfer order on the day of submission of the credit transfer order (intraday execution), provided that the customer submits the credit transfer order before the final cut-off time (approx. 4:00 p.m. on business days), and the credit transfer order meets the requirements of acceptance.**



In the chart the green bars show the execution times applicable following 1 July 2012, and the orange ones refer to those before that date. The chart is based on the assumption that in the intraday system the final cut-off time for submission will be 4:00 p.m., while in the current system it is 6:00 p.m. This shows that in the case of submission before 4:00 p.m. the customer will be better off in every respect than now, because the transferred amount will be credited to the account of the payee/beneficiary within the same day.

In the case of submission between approx. 4:00 p.m. and approx. 6:00 p.m. the customer will not suffer any disadvantages as compared to the situation before 1 July 2012, because the transferred amount will be similarly credited to the account of the payee/beneficiary only in the following morning and, what is more, all the payment service providers will debit the payer's (debtor's) account only on the day of execution.

In the case of transactions submitted between 6:00 p.m. and midnight, the customer will be again much better off following 1 July 2012 than now, because the transferred amount will reach the payee/creditor on the next business day following the date of submission.

**These times are only approximate ones, because in the case of some payment service providers there may be differences in the final cut-off times applicable both following and before 1 July 2012.**

#### **2.11. Can credit transfer orders be submitted by indicating the debit day? If so, when will they be executed?**

**Yes, just like up to now, customers may submit credit transfer orders by indicating a specific debit day.**

The maximum 4-hour execution time is calculated from the point in time when the payment account of the payer (debtor) is debited or at least when the funds for covering the transaction are separated. Such point in time may vary depending on the processing system of the payment service provider.

If the payment service provider can debit the payer's (debtor's) payment account or separate the fund only during the business hours, then this will be performed upon the opening of the debit day, and the maximum 4-hour execution deadline must be calculated from this point of time.

If the debit day indicated by the payer (debtor) is not a business day from the payment service provider's point of view, the next business day shall be deemed to be the debit day.

#### **2.12. How can the time be tracked when the transferred amount is credited?**

**It is best to track the execution of credit transfer orders via the electronic systems provided by the payment service providers (e.g. the internet).**

If the customer submits the credit transfer order within the final cut-off time, and the funds required to cover the transaction were available (most electronic systems immediately confirm this), the credit transfer order is processed in the clearing cycle directly following the point in time of acceptance, or maybe in the next clearing cycle, within 4 hours of acceptance of the credit transfer order.

It is worth using the related services – e.g. sms or other automatic electronic notification – which provide information on the debit time. As a result of the processing, the transferred amount arrives on the account of the payee's (account keeping) payment service provider and it is soon credited also to the payee's account. Most payment service providers make it possible for the customers to track their account history through the internet or the electronic banking system.

#### **2.13. When are items incoming in the first and the last cycle expected to be credited?**

**In general, items incoming in the first cycle are credited between approximately 8:45 and 9:30 a.m., and those incoming in the last cycle are credited between 4:45 and 5:45 p.m.**

In most cases, items incoming in the first cycle are expected to be credited between approx. 8:45 and 9:30 a.m., and those incoming in the last cycle are credited between approx. 4:45 and 5:45 p.m. However, it cannot be excluded, that there may be days when an exceptionally high number of credit transfer orders are to be processed, causing some delay in these times.

#### **2.14. What will be the fees for intraday credit transfers?**

**Payment service providers will individually determine the fees to be charged for intraday credit transfers and publish them latest at the end of April 2012.**

These fees are expected to be calculated in consideration of the fact that the introduction of the new system requires capital investments from all payment service providers.

Intraday credit transfer is a high-quality service, as the amount of a HUF credit transfer order initiated electronically by the payer (debtor) is at the payee's (beneficiary's) disposal already on the same day. As a result of the intraday credit transfer service it is sufficient for the payer (debtor) to launch an item one business day later than now. This positive change allows considerable extra liquidity for companies. The data content of credit transfer orders may also be extended, which can be an advantage for both the sending and the receiving sides.

The extra cost of the investment per a transaction is not significant according to the central bank's calculations. The central bank expects the intraday credit transfer system to foster competition

among payment service providers, which will increase the volume of credit transfers in the long run. The stronger competition may be favourable for customers not only from the aspect of the level of service, but also from the aspect of the size of the fee to be charged for the service.

According to the central bank's expectations the introduction of the intraday credit transfer service will not result in a considerable increase in the fees for credit transfers, and presumably a major part of the payment service providers will not increase their charges at all due to this reason.

### **3. EXTENDED DATA CONTENT**

#### **3.1. What does extended data content mean?**

**The payers (debtors) will be able to provide ultimately payees (beneficiaries) with more data along with each credit transfer than currently, which is an advantage mainly for corporate customers receiving such credit transfers.**

As a result of the introduction of the data content similar to the SEPA credit transfer (SCT) standard set up on the basis of the universal financial standard (UNIFI), the fields used so far (names of the originator and the beneficiary, remittance information) will be significantly longer and, in addition, the data content of credit transfer orders and bank account statements may contain several optional fields. Customers will have the possibility to indicate the names of the ultimate payee (beneficiary) and the original payers (originators) as well, thus enabling them to initiate and receive payments on behalf and for the benefit of third parties.

#### **3.2. What transaction types will allow the use of extended data content?**

**Any credit transfer transactions with the exception of batch transfers and paper-based credit transfer orders.**

In addition to HUF credit transfer orders submitted electronically and initiated in favour of payment accounts kept by other payment service providers, the extended data content can also be used for credit transfer initiated in favour of payment accounts kept by the customers' own payment service providers. However, for the time being the extended data content will not be available for batch credit transfers. The data template to be used for credit transfer orders as specified in the MNB decree will remain unchanged.

#### **3.3. What is the HCT credit transfer order standard and where is it obligatory to use it?**

**The new type of credit transfer (HCT) applied within intraday clearing is a payment method similar to the European SEPA credit transfer standard (SCT).**

The HCT electronic credit transfer order follows the SEPA credit transfer (SCT) standard based on UNIFI (ISO 20022) xml format, and it is also adapted to the Hungarian characteristics: the currency is HUF, Fillér value other than zero shall not be used, and the national part of bank account numbers complies with the Hungarian requirements. The use of the HCT format is not obligatory in the submission of credit transfer orders. Payment service providers will use the UNIFI xml messages in the communication between themselves from the outset.

**3.4. Is there a national standard for determining the data content of credit transfer orders? The MNB decree<sup>9</sup> regulates the minimum data content.**

There is a common understanding, that payment service providers will ensure the provision of the data content in compliance with the HCT credit transfer on the sending side, and they will receive and forward the information provided by the payer upon submission of the credit transfer order to the payment service provider on the receiving side. Therefore, the so-called "truncation" (discarding information) is not allowed. In this light, the Hungarian SEPA Association has set up implementation guidelines<sup>10</sup> for credit transfer orders which can be given in the UNIFI xml format, and they may be used by the payers (debtors) if the payment service providers are ready to accept them.

In the long run, the standardised data content may facilitate competition among payment service providers.

**3.5. Is it possible to continue to use the usual 3x8 or 2x8-digit bank account numbers when submitting credit transfer orders?**

**Yes, this will be the default format.**

Yes, the default format will remain to be the usual 3x8 or 2x8-digit bank account number when submitting credit transfer orders, but in given cases the customer's payment service provider may accept the international bank account number (IBAN) for domestic credit transfers as well.

**3.6. Will there be a standard for the unique ID of the transaction (similarly to the postal inpayment ID)?**

**Yes, there will be.**

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<sup>9</sup> Article 13 of Decree 18/2009 (VIII. 6.) of the MNB on Execution of Payment Transactions.

<sup>10</sup> The implementation guidelines are available at: [http://www.giro.hu/dokumentumtar\\_hct.php](http://www.giro.hu/dokumentumtar_hct.php)

The payer (debtor) may use a unique transaction ID consisting of a maximum of 35 characters. The purpose of such an ID is that it shall be stored at each point of the message chain as a unique ID.

### **3.7. Can Hungarian characters be used in the messages of intraday electronic credit transfers?**

**Yes, Hungarian characters can be used in the messages of intraday electronic credit transfers.**

### **3.8. Will the content of bank account statements change?**

**Yes, it is expected to be extended.**

In Hungary, the intraday credit transfer system introduces a standard that has already been widely used in Europe. This standard allows the use of an extended data content. It offers a number of advantages to both the sender and the recipient. The sender can provide much more information in the credit transfer order, thus enabling the recipient to receive more information on the credit transfer transaction than currently.

### **3.9. Will the electronic banking platform be standardised or remain different among the individual payment service providers?**

**For the time being it will not be standardised, however, in the long run the electronic banking platform is on the way towards standardisation.**

Customers who hold accounts at several payment service providers can now encounter entry fields of different numbers and names at the various payment service providers. The reason for this is that payment service providers have different electronic systems.

## **4. TECHNICAL DETAILS**

### **4.1. Will there be any changes in the settlement of interest on the payment account?**

**It is still true that the payment service provider calculates and pays interest on the basis of the closing balance. However, regarding the interest earned on the payment account, customers will enjoy benefits, because the credit transfer transaction is executed within the same day, so there will be no funds in transit.**

### **4.2. Will VIBER cease to exist?**

**The “Valós Idejű Bruttó Elszámolási Rendszer” [Real-Time Gross Settlement System] (VIBER) will not cease to exist.**

The VIBER will continue to perform its original function of executing transactions between credit institutions, and will continue to be available to the customers whenever they wish their large-value and extremely urgent items to be executed there. At the same time, as a result of the current developments, and via the intraday clearing system, customers will be able to execute credit transfers much faster than up to now.

#### **4.3. Will the current overnight clearing system be kept?**

**Yes it will, to transaction types that are not subject to the “4-hour rule”.**

The overnight clearing system will be kept temporarily for transaction types that are not mandatorily subject to the “4-hour rule”. For instance, direct debits are executed in this overnight clearing system, and so are paper-based credit transfer orders, unless otherwise decided by the payer’s (debtor’s) payment service provider.

#### **4.4. Who is entitled to decide in which system a paper-based credit transfer order is to be executed?**

**The payment service providers are.**

It is up to the payment service providers to decide in which system they will execute credit transfer orders submitted in paper format, if these are to be credited on payment accounts kept by other payment service providers. The payment service providers may make this decision in general or on a case-by-case basis.

#### **4.5. Who is entitled to decide in which system an official transfer<sup>11</sup> or a remittance summons<sup>12</sup> are to be executed?**

**The payment service providers are.**

It is up to the payment service providers to decide in which system they will execute official transfers or remittance summons. The payment service providers may make this decision in general or on a case-by-case basis.

#### **4.6. In which system shall recurring (standing) transfer orders be processed?**

**It depends whether the credit transfer order is submitted in paper or electronic format.**

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<sup>11</sup> Official transfer: a payment order given by the party entitled to enforce payment in the course of a judicial, administrative or tax collection procedure, in which such party can collect its financial claim via debiting the debtor's payment account.

<sup>12</sup> Remittance summons: an official writ made by the competent court upon the request of the party seeking execution for covering a financial claim by execution, in which the court instructs the debtor's payment service provider to freeze or transfer the amount of the claim specified in the court decision, to the party seeking execution via debiting the debtor's payment account.

It is the method of submission of the credit transfer order (paper-based or electronic) that determines in which system (overnight or intraday clearing system) the credit transfer order shall be executed. The payment service providers set out the rules of recurring (standing) transfer orders in their Business Rules or General Terms and Conditions of Contract.

#### **4.7. What is the order of processing of items initiated for intraday clearing?**

**As a general rule, the item launched first will be executed first.**

The processing method of items initiated for intraday clearing is the FIFO method, i.e. the item launched first will be executed first. However, the payment service provider of the payer (debtor) may deviate from this on the basis of a bilateral agreement (Contract, Business Rules, General Terms and Conditions of Contract).

#### **4.8. How much burden will be placed on the banks' processing systems by the daily five cycles?**

**No special operational disturbances, failures or delays are expected.**

Already at present payment service providers – with the involvement of other organisations – are able to provide 7x24-hour services by ensuring the non-stop availability of cash withdrawals from ATM or payments via POS terminals, for example.

The introduction of the intraday credit transfer system is preceded by more than a one-year development period and more than eight months of intensive testing. The intraday credit transfer system will be launched only on the basis of adequate test results.

Furthermore, each participant is getting prepared for the rapid elimination of any potential errors with appropriate reserve capacities, procedures and substitute processes.

## **5. INTERNATIONAL OUTLOOK**

### **5.1. In how many countries does the intraday credit transfer system function?**

**Intraday credit transfers are available in already 22 countries of the European Union.**

In 22 out of the 27 Member States of the European Union the intraday retail clearing system is available, and in the pan-European retail payment system (EBA STEP 2) it is also possible to make intraday credit transfers.

### **5.2. In which European country does 7x24 intraday credit transfer system exist?**

**In Europe only in the United Kingdom.**

Currently, it is only in the United Kingdom where there is a 7x24-hour (non-stop) system, but this "Faster Payments" is a premium service.

### **5.3. To what extent is SCT used in the euro area?**

**In June 2011 the indicator of the usage of SCT reached 20%, and since then it has permanently been even higher.**

The SCT (SEPA credit transfer payment scheme) was launched in January 2008. At the outset, it was used for cross-border credit transfers in euro only, but now it is also used to an ever increasing extent for domestic credit transfers in euro. As of June 2011 the indicator of the usage of SCT has exceeded 20% in terms of overall euro credit transfers.<sup>13</sup>

### **5.4. Is there a final deadline for migration to the SCT?**

**Yes, there is, by 1 February 2014 in the euro area, and 31 October 2016 in the non-euro area.**

A regulation of the European Parliament and of the Council sets out the end-dates for migration to the SEPA standards with respect to credit transfers and direct debits in euro. According to the agreement reached<sup>14</sup> this is different within and outside the euro area. With the exception of the so-called niche products the deadline is 1 February 2014 within the euro area and 31 October 2016 outside the euro area.

## **6. PREPARATIONS FOR INTRODUCING INTRADAY CLEARING IN HUNGARY**

### **6.1. Who are taking part in designing and implementing the intraday credit transfer project?**

**GIRO Elszámolásforgalmi Zrt., the Hungarian State Treasury, the Hungarian SEPA Association, the MNB, and further 53 direct participants of the Interbank Clearing System – not mentioned above<sup>15</sup> - take part in designing and implementing the intraday credit transfer project.**

### **6.2. Why is such extensive cooperation necessary for designing and implementing the intraday credit transfer project?**

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<sup>13</sup> The current indicator of the usage of SCT can be downloaded from here:<http://www.ecb.int/paym/sepa/about/indicators/html/index.en.html>

<sup>14</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/936&format=HTML&aged=0&language=EN&quiLanguage=en>

<sup>15</sup> The Hungarian SEPA Association is not a member of the Interbank Clearing System, but both the MNB and the Hungarian State Treasury are members of the Interbank Clearing System, which is operated by GIRO Elszámolásforgalmi Zrt

**Since payment market constitutes a network market, its development requires the cooperation of all participants.**

Such extensive cooperation is needed because no payment service can be established without the cooperation of the service providers. For example, in the case of credit transfers, it is necessary that the payment service providers of both the payer (debtor) and the payee (beneficiary) should be participants of the so-called domestic payment system executing and clearing the payments between them, and the internal processes of the concerned payment service providers should fully comply with the rules and standards of the domestic payment system. Therefore, when a new service is introduced, all participants must implement the developments simultaneously and in a coordinated manner, which makes it especially difficult to upgrade the infrastructure of payments due to the large number of payment service providers (approx. 200 institutions in Hungary and 10 000 institutions in Europe).

Moreover, the market competition itself does not motivate payment service providers to carry out joint developments, as they are competing with each other on this market. Therefore, a system may operate for up to 10-15 years before being replaced in the course of technological development. Pursuant to the central bank's act the MNB takes part in developing payment and clearing systems, and the MNB regulates the execution of payment transactions. Acting within its scope of authority (by introducing the so-called "4-hour rule") the central bank – after several years of joint work and conviction – has finally been able to persuade payment service providers to participate in the implementation of the project.

### **6.3. How and when did preparations for introducing the intraday credit transfer system begin?**

**Preparations were started upon the MNB's initiative and with the participation of banks in 2005.**

Upon the decision of the Payment System Council co-chaired by the MNB and the Hungarian Banking Association, operating with the participation of the Hungarian State Treasury and the banks with the largest volume of payment transactions, the working group consisting of experts of the concerned organisations started assessing the customers' demand for intraday clearing in 2005. Following the positive feedback received from the customers and the banks, the effects of intraday payment on the banks' intraday liquidity management were examined in several versions. The simulations made it obvious that for most of the clearing members the introduction of intraday clearing would not cause any difficulties. After that, the MNB asked credit institutions to provide cost estimates specifying at what rate costs would increase as a result of the implementation of each analysed theoretical scenario.

#### **6.4. What were the milestones in preparing for the introduction of intraday credit transfer system?**

**The milestones were the decisions made by the Payment System Council.**

The above-mentioned Payment System Council

- made a decision in the spring of 2009 to introduce intraday clearing in 2011, and asked GIRO Zrt. to make the necessary preparations,
- approved the general functional requirements of intraday clearing in the autumn of 2009, and agreed that domestic credit transfers complying with the SEPA standard should be introduced within the framework of intraday clearing,
- made a decision in June 2010 on launching the project with a delivery date of 1 July 2012.

In October 2010 the MNB amended the central bank's decree on the execution of payment transactions by introducing the so-called "4-hour rule" (see separately) as of 1 July 2012.

#### **6.5. Why did the MNB need to regulate the date of delivery?**

**The MNB has tightened the date of delivery so as to be able to implement the extensive development within a reasonably short but feasible deadline.**

The banking community already supported the intraday clearing project unequivocally in 2009. In 2010, however, some participants did not find the project feasible under the given economic circumstances.

In fact, the development of the clearing system requires the participation of all banks (including savings cooperatives, credit unions etc.), as the remaining part of the banking system would not have been able to implement the development without those not taking part, thus deferring the project for an unforeseeable period of time. Since in theory everyone agreed that the development had to be carried out sooner or later, the MNB, in the interest of public good, decided to enforce compliance with the original schedule by adopting a regulation.

#### **6.6. How is the implementation of project proceeding?**

**In line with the preliminary schedule.**

The implementation of the project is proceeding in accordance with the previously set schedule, with the IT developments and tests currently being in progress.

#### **6.7. What other steps are to be taken before the intraday credit transfer system is launched?**

**Testing is underway at present, and the payment service providers have to inform customers about the changes.**

At present, the testing of the payment service providers' own systems and the system of GIRO Zrt. is in progress. Furthermore, the payment service providers have to inform their customers about the changes, and reflect them in their General Terms and Conditions of Contract and List of Conditions. Parallel with this, all concerned institutions take communication steps to provide assistance in informing customers of the opportunities and rules of the new system.

#### **6.8. When will intraday clearing be applied to collections and credit transfers not yet included in the present round?**

**This is most likely to take place by 2015.**

In addition to getting prepared for the introduction of the intraday credit transfer system, theoretical work is already under way to enable the application of intraday clearing to direct debits and types of credit transfers not yet included in this round. The decision will be made at a later stage concerning the date when intraday clearing can be applied to direct debits and types of credit transfers not yet included in this round. According to the central bank's expectations this is most likely to take place by 2015.

## **7. DEFINITIONS**

1. **4-hour rule:** Pursuant to Decree 15/2010 (X. 12.) of the MNB following 1 July 2012 the payment service provider of the payer (debtor) must ensure that domestic HUF credit transfer initiated electronically by their customers during the time period (prior to the final cut-off time) set for intraday execution (i.e. execution within the same day) be received by the payee's payment service provider within 4 hours of the time when the credit transfer order is accepted.
2. **Debtor (payer):** the party initiating the credit transfer, or whose account is debited with the credit transfer. In legal terms: a natural or legal person who (or which), as the holder of the payment account, initiates a payment order from his/her (its) payment account, or whose payment account is debited on the basis of an official transfer or remittance summons.
3. **Credit transfer:** the payment service provided upon the payer's order, during which the payment account of the payer is debited in favour of the payee, as well as the transfer of funds based on official transfer or remittance summons.
4. **BBAN (Domestic Bank Account Number):** payment account number identifier, i.e. the unique identification number generated on the basis of Annex 1 of *Decree 18/2009 (VIII.1.6.) of the MNB on Execution of Payment Transactions* serving to clearly identify a payment account and consisting of 2x8 or 3x8 numerical characters.
5. **Submission timeine:** The closing time of the period specified for intraday (i.e. same-day) execution.
6. **BIC:** the business identifier and control code used for the international identification of payment service providers, the elements of which are generated in accordance with the ISO 9362 standard. The code is registered by SWIFT, and its length is 8 or 11 alphanumeric characters. The payment service providers often refer to it as the SWIFT code.
7. **ICS:** the gross payment system currently operated by GIRO Zrt., which will be extended with the platform suitable for the intraday clearing of credit transfers as of 1 July 2012. The existing

overnight system will be kept temporarily, processing and clearing those payment orders that are not subject to the intraday clearing system or cannot be executed in the accounting system of a given payment service provider.

8. **Beneficiary (payee, addressee):** *the party receiving the transferred funds, in general terms, the addressee, in legal terms* the natural or legal person who is the recipient of the funds being the subject of the payment transaction.
9. **Clearing activity:** the execution of payment turnover stemming from own and customers' payment orders of payment service providers (banks, savings cooperatives, credit unions), the MNB, and other organisations entitled to participate in the payment system, and the establishment of the participants' credit and debit balances.
10. **Clearing cycle:** the independent, typically recurring clearing activity performed by the clearing house, if the clearing house does not operate continuously (in real time), but on a periodical basis (as a result of the clearing the payment orders are forwarded to the payment service provider of the addressees).
11. **Payment System Forum:** an independent, self-organised, open, consultative professional organisation committed to the affairs of the national payment system and operating upon the MNB's initiative, with the support of the Hungarian Banking Association, and with the participation of market actors playing a key role in payments, as well as of the Hungarian State Treasury, GIRO Zrt., and KELEK Zrt.
12. **Payment System Council:** the supreme body of the Payment System Forum. It consists of the members' representatives and operates under the co-chairmanship of the MNB and the Hungarian Banking Association.
13. **FIFO:** First In First Out, i.e. the item launched first will be executed first.
14. **IBAN (International Bank Account Number):** the international payment account number identifier, generated in accordance with the ISO 13616 standard. The IBAN issued in Hungary has the length of 28 characters. The first two characters of the IBAN are HU, followed by 26 numerical characters. Two of these characters are the IBAN control numbers, followed by the 16 or 24-character BBAN. The 16-character bank account number must be followed by eight zeros.
15. **ISO 20022 UNIFI standard:** an open standard developed by ISO for the support of financial processes from the first half of the 2000s, which recommends the use of the xml syntax. The UNIFI covers several financial areas (payments, securities, account management, trade financing etc.).
16. **Payment order:** an order given by the payer or the payee to his/her/its own payment service provider for the execution of a payment transaction, as well as the official transfer or remittance summons.
17. **Payment transaction:** the execution of an order given by the payer, the payee, a party entitled to issue an order for official transfer, and remittance summons, using any of the payment methods, regardless of the legal relationship between the payer and the payee.
18. **Payment account:** an account opened for one or more customers of the payment service provider serving for the execution of payment transactions, including bank accounts.
19. **Payer (debtor):** *the party initiating the credit transfer, or whose account is debited with the funds transferred. In legal terms:* the natural or legal person who (or which), as the holder of the payment account, initiates a payment order from his/her (its) payment account, or whose payment account is debited on the basis of an official transfer or remittance summons.
20. **GIRO Zrt.:** GIRO Elszámolásforgalmi Zrt., the Hungarian payment clearing house.
21. **HCT (Hungarian Credit Transfer):** *the UNIFI (ISO 20022) XML format SCT standard extended with the Hungarian characteristics: the currency is HUF, no Fillér values other than zero shall be used, and the national part of the account number complies with the Hungarian requirements.*
22. **Payee (beneficiary, addressee):** *the party receiving the transferred funds, in general terms, the addressee. In legal terms,* the natural or legal person who (which) is the recipient of the funds being the subject of the payment transaction.

23. **Retail payment system:** a payment system the main purpose of which is to process, clear or settle credit transfers and direct debits (generally bundled together for transmission, mainly of small amounts).
24. **Business day:** the day on which the customer's payment service provider is open for executing payment transactions.
25. **Closing time of the business day:** the time specified by the payment service provider on the basis of different criteria (including, in particular, the currency, the place and method of submission, the payment instrument), up to which it receives the given payment order.
26. **Paper-based payment order:** a written payment order not signed electronically.
27. **Payment service provider:** a credit institution, institution issuing electronic money, the institution operating the Posta Elszámoló Központ (Postal Clearing Centre), a payment institution, the MNB and the Treasury, which perform payment service activities.
28. **SCT (SEPA credit transfer):** credit transfer in euro, based on the common European standard.
29. **SEPA (Single Euro Payment Area):** an area within which economic operators can make and receive payments in euro using one single payment account anywhere in the same way as in their own countries. Geographically, the area covers the 27 EU Member States, as well as Iceland, Liechtenstein, Norway, Switzerland and Monaco.
30. **SWIFT code:** the business identifier and control code used for the international identification of payment service providers, the elements of which are generated in accordance with the ISO 9362 standard. The code is registered by SWIFT, and its length is 8 or 11 alphanumeric characters (see BIC).
31. **Queuing:** non-execution (suspension) of a payment order arriving to the debit of a payment account kept at the payment service provider due to insufficient funds, and placement of such order in a waiting queue for future execution, except in the case when the payer agrees with the payment service provider on queuing incoming payment transactions for scheduled execution.
32. **Debit day:** the day when the payment service provider reduces the balance of the payer's payment account kept by it with the amount of the payment order.
33. **Customer:** the payer and the payee, having a contractual relationship with the (account-keeping) payment service provider.
34. **Final cut-off time:** the point of time prior to which the payment service provider performs its responsibilities arising from the execution of payment orders received and accepted by it on the same business day, unless a later time is specified by the customer or unless otherwise provided by law.
35. **VIBER:** the real-time gross settlement system operated by the MNB, serving mainly for the execution of large-value and extremely urgent payment transactions.