

Clarifications on SCT Implementation Issues

Abstract	This document addresses operational issues arising from incorrect implementation of the SEPA Credit Transfer Scheme Rulebook version 2.3 and describes how the issues should be resolved.
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0. DOCUMENT INFORMATION

0.1. Change History

This is the first release of this document. As necessary, further versions may be issued to address any new instances of incorrect implementation of the SCT Rulebook.

Issue number	Dated	Reason for revision
V 1.0	10/09/2008	To address operational issues identified following launch of the SCT Scheme on 28 January 2008

1. INTRODUCTION

A number of issues have been identified in relation to SEPA Credit Transfer (SCT) payments. The majority of issues identified since the SCT launch are due to incorrect implementation of the SCT Rulebook and its Implementation Guidelines. This document addresses these issues, and describes how the issues should be resolved. It is through the resolution of these issues that the level of Straight Through Processing required for the migration of high volumes of credit transfer payments will be achieved.

2. RETURNING SCT PAYMENTS

There are several issues related to returns of SCT payments.

2.1. Return Channel

Issue: Returns are sent via channels that are not SEPA-compliant i.e. that do not support the formats and practices in line with the SCT Scheme Rulebook.

Clarification: According to the SCT Scheme Rulebook (section 4.4 Exception Processing Flow, p. 26), the return message of an SCT payments is routed through the same path taken by the original credit transfer unless otherwise agreed between the Beneficiary Bank and the Originator Bank. Under the SCT Scheme Rulebook, a return message has to be executed using the format specified in the SCT Scheme Implementation Guidelines.

Furthermore, the processing of the payment and any reject/return should be fully automated and electronic at the interbank level (section 2.2: Description of Scope of the Scheme, p. 14).

2.2. Return method

Issue: New payment instructions (pacs008) are generated for returning payments.

Clarification: The SCT Scheme has a specific dataset (DS-03) for returns, which corresponds to the UNIFI ISO 20022 XML message standard pacs004 (SCT Scheme Implementation Guidelines, section 1: Introduction, p. 4). The mandatory elements of this dataset are the following (SCT Scheme Rulebook, section 4.5.3 Reject or Return Credit Transfer Dataset):

- R1 - The type of “R” message
- R2 - The Identification of the type of party initiating the “R” message
- R3 - The reason code for non-acceptance of the credit transfer
- R4 - The settlement date for the return
- R5 - The specific reference of the bank initiating the return
- An exact copy of all attributes of the received DS-02 which is being returned/rejected

A bank wishing to return a payment should send a return message (pacs004) and must not generate a new payment instruction (pacs008).

2.3. Timeline for sending returns

Issue: The three day timeline is not respected.

Clarification: The SCT Scheme Rulebook states that the Beneficiary Bank must send the return message to the originator bank through the selected CSM at the latest three banking business days after settlement date. At the same time, it has to return the funds (section 4.4: Exception Processing Flow, p. 27).

Irrespective of the above, a Beneficiary may decide any time, i.e. later than 3 days after receipt, that it cannot apply the funds and thus wants to return the original credit transfer. In order to keep the history of a transaction (including its returns) on the records, it is recommended that the Beneficiary Bank sends a return message (pacs.004) using the appropriate code MS02 (reason not specified, customer generated).

2.4. Return codes

Issue: Return codes are not provided or are incorrect.

Clarification: As specified in the SCT Scheme Implementation Guidelines (section 2.2.5: Transaction Information, p. 19), the indication of a return reason code is mandatory (R3 Reason code for non-acceptance). Furthermore, reason codes are to be used as specified in the Scheme Implementation Guidelines.

The SCT Scheme Implementation Guidelines list the following reason codes for non-acceptance of the credit transfer (section 2.2.5: Transaction Information, pp. 20-21):

- AC01 Account identifier invalid (i.e. invalid IBAN or account number does not exist)
- AC04 Account closed
- AC06 Account blocked, reason not specified
- AG01 Credit transfer forbidden on this type of account (e.g. savings account)
- BE04 Account address invalid
- MD07 Beneficiary deceased
- MS02 By order of the beneficiary
- MS03 Reason not specified
- RR01 Regulatory reason

These are the only reason codes allowed according to the current SCT Scheme documentation. The **SCT Rulebook version 3.2**, approved by the EPC Plenary in June 2008, includes the addition of the following return reason codes listed below. The SCT Rulebook version 3.2 **will not take effect until 2 February 2009**.

- AG02 Operation/transaction code incorrect, invalid file format
- AM05 Duplicate payment
- MD03 Operation/transaction code incorrect, invalid file format
- RC01 Bank identifier incorrect, e.g. invalid BIC

2.5. Information put in the proprietary field

Issue: Reason codes are put into the proprietary field in order to bypass the validation process of the CSM.

Clarification: The proprietary field of the return message should only carry the information it has been foreseen to carry within the SCT Scheme (i.e. presently RR01 according to versions 2.3 and version 3.2 of the SCT Rulebook); if it carries other information, the message is not Scheme-compliant and may be rejected by the CSM.

2.6. Charging for returns

Issue: Charges calculated for returning SCT payments by sending an invoice or deducting a charge from the amount of the payment.

Clarification: The SCT Scheme Rulebook (section 2.2 Description of Scope of the Scheme, p. 14), specifies a fully STP process for exception handling, such as returns, which is an integral part of the scope of the Scheme. Furthermore, the Scheme makes it explicit that no charge may be deducted from the original amount of the payment (section 4.4: Exception Processing Flow, p. 26).

2.7. Inclusion of original information

Issue: Returns do not include an exact copy of the original transaction (i.e. the OrgnlInstrId is amended, shortened or deleted completely). This causes reconciliation problems on the part of the receiving banks and often makes the automatic processing of the return impossible.

Clarification: The full range of data to be provided in a return message is clearly specified in the dataset for returns and rejects DS-03 (SCT Scheme Rulebook, section 4.5.3: Reject or Return Credit Transfer Dataset). It includes, among others, the following mandatory element: “an exact copy of all the attributes of the received DS-02 which is being returned/rejected”.

2.8. Summary

When sending a return message, a bank should:

- use the path through which the originator bank has sent the original credit transfer or agree with its counterparty on a different SEPA Scheme-compliant path;
- send the return message no more than three business days after the settlement date at the latest;
- include a valid (meaningful) reason code rather than using MS03 (Reason not specified)
- specify in the proprietary field for the reason code only the code defined in the SCT Scheme Implementation Guidelines (RR01);
- not deduct any charge from the original amount.
- use the ISO20022 XML message standard pacs.004 for the return message and provide the mandatory elements of the SCT Scheme dataset for rejects/returns (DS-03) in the message, including an exact copy of all the attributes of the original payment instruction that is being returned/rejected;

3. USE OF BIC FOR SCT PAYMENTS

The EPC Register of Participants contains at the date of this document 4350 Participants. Each Participant has a unique reference BIC. Of the 4350 Participants, only one third have a BIC8, while two thirds are only uniquely identified with a BIC11. Each of the Participants that has a BIC11 belongs to a banking group (for example savings and cooperative bank groups). The largest group has over 600 Participants, each with its unique BIC11, but all with the same BIC8. Each Participant registered with a BIC8 or a BIC11 for the SEPA Credit Transfer Scheme is an independent legal entity.

The SCT Rulebook mandates at interbank level the use of the BIC of the Beneficiary Bank. As described above, a Beneficiary Bank may be uniquely identified by a BIC8 if it is not a member of a Group of banks, or by a BIC11 if it belongs to a Group of banks.

Some Originator Banks (OB) are sending SCT payments that do not contain the correct BIC of the Beneficiary Bank (BB). This is mostly occurring when the BB is identified by a BIC11 which it has issued and which it expects a BIC11 to be used, and the OB is using a BIC8 or a BIC8XXX.

During the next few years, there will be a migration of credit transfers from domestic formats to the new SEPA Credit Transfer instrument. Banks must actively inform customers of the need to always supply the correct information in order for payments to be executed STP. The following sections describe the obligations of banks and recommended practices.

3.1. Obtaining a BIC

IBAN and BIC are mandatory information in the bank-to-bank space for a SCT payment and both the IBAN of the Beneficiary's account and the BIC of the Beneficiary Bank must be correct. In addition, the BIC should match with the reported BIC in the CSM routing directories for SCT payments. Only the bank owning the beneficiary account (or an institution authorised by this bank) can validly issue an IBAN and can define the related BIC.

Originator Banks may derive a BIC from an IBAN. However they are recommended to use an accurate and up-to-date Directory in order to avoid the risk that wrong BIC could be derived. In case where an Originator Bank or its customer converts BBANs to IBANs there is a risk that the resultant IBAN might be incorrect.

In general Banks should inform their customers through different ways of the IBAN and related BIC of their accounts (statements, invoices, commercial communications, internet, ATMs, cheques, book accounts, contracts, etc..).

Banks should also inform customers that it is necessary to obtain correct IBANs and the complete set of BIC characters (BIC8 or BIC11) information. Customers should also be reminded that the correct IBAN and the related BIC information should be printed on invoices and/or on other supports.

The IBAN and BIC for sending a payment to a Beneficiary Bank are the IBAN of the beneficiary account and BIC of the bank holding the beneficiary account as provided to the Originator Bank by the originating customer. However, banks having opted to obtain the BIC by deriving it from the IBAN are allowed to do so in accordance with the SEPA IBAN Strategy approved by the EPC Plenary in September 2006.

A Beneficiary Bank may return a payment that does not contain the correct IBAN in relation to its BIC8 or BIC11 (IBAN refers to another Bank).

3.2. Briefing on Directories

The EPC Directory of Participants lists adhering banks with their individual BIC8 or BIC11. It does not list branches of banks in SEPA (it does list adhering branches in SEPA of non-SEPA banks). It does list adhering subsidiaries. Branches of a Participant are generally covered by the BIC8 of the head office.

This directory must NOT be used for routing payments. In this directory BIC 8 or BIC11 are used by EPC as a means of identifying unambiguously the Participant organisation.

An SCT Participant must ensure that the correct BIC8s or BIC11s are registered in the CSM directories

Each CSM has in place a directory with the BIC of its participants that is used by participants in order to check if the BIC provided by a customer or derived from IBAN refers to a participant reachable by that CSM. Any CSM defines internally the rules in order to register its participants and to correctly check the routing.

IBAN/BIC directories: these databases are generally offered by service providers and are used to derive a BIC from an IBAN. Once the BIC is derived it should be checked in the Routing Directory of the CSM before sending or delivering a payment to that BIC.

3.3. Recommended actions

1. The originating customer should provide the Originator Bank with the IBAN of the Beneficiary and the BIC of the Beneficiary Bank provided by the Beneficiary.
2. An Originator Bank should use the IBAN provided by its customer and the related BIC8 or BIC11 (provided by the customer or derived from IBAN) for sending the payment to the beneficiary bank.
3. An Originator Bank must address the payment to the BIC8 or BIC11 as obtained from point 2 above. It must not replace a BIC11 with a BIC8 or BIC8XXX or a BIC8 by a BIC11.
4. Any Beneficiary Bank must ensure that it provides its customers with their correct and complete IBAN and BIC information. Neither the Originator Bank nor any Intermediary Bank or CSM are requested to validate or check any IBAN or BIC mismatches.
5. Any Participant must ensure that accurate BIC8 or BIC11 are registered in the CSM routing directories.