European
Payments Council

CLARIFICATION PAPER

SEPA CREDIT TRANSFER AND SEPA DIRECT DEBIT

Abstract	This document addresses operational issues arising from the implementation of the SEPA Credit Transfer Scheme (SCT) Rulebook, SEPA Core Direct Debit Scheme (SDD) Rulebook and SDD Business-to-Business (B2B) Scheme Rulebook.
	This document applies to the versions of the SCT, SDD Core and SDD B2B Rulebooks effective until 19 November 2017.
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0. <u>Document Information</u>

0.1. Change History

Issue number	Dated	Reason for revision
V0.9	29/11/2012	Reviewed and finalised by SPS WG
V0.91	14/12/2012	Comments addressed by EPC Plenary
V1.0	15/01/2013	Final review completed by SPS WG
V1.1	23/01/2013	Correction done in section 3.5 point 5)
V2.0	19/06/2013	Reviewed by SPS WG and approved by EPC Plenary - Title correction in section 3.3 - Section 3.5 added - Removal of the text between brackets under 3.6 point 4) second paragraph - Page 8 - Overview of the different scenarios concerning sequence questions: 'request for cancellation' added alongside 'Reject' for First as sequence type of the original SDD. Footnote 1 included.

V2.1	25/11/2014	- Important change added at the start of section 3 on the SDD Core collection timecycle and on the use of the sequence type 'FRST' for the two SDD Rulebooks as of November 2016
		- Add 3.9 as section numbering to the section covering the overview of the different scenarios concerning sequence questions
		- Section 3.9:
		    o Important change added on the use of the sequence type 'FRST' for the two SDD Rulebooks as of November 2016
		    o Clarification on the sequence type to be used for the representation of a returned One-Off and Last SDD collection
		    o Note added on a refunded One-off or Last collection
		
		Version 2.1 updated in November 2015 to indicate in the abstract on the cover page, the EPC SEPA Rulebook versions which the version 2.1 of the clarification paper applies to. The 2016 SDD Core and B2B Rulebook version numberings have been updated as well in the yellow text frames (from SDD Core v9.0 to v9.1 and from SDD B2B 7.0 to 7.1 respectively)

V3.0	24/11/2016	<u>Updated clarifications on</u> – The use of the SDD sequence types – The SDD Core and B2B collection time cycles – The representation of SDD collections – SDD R-transaction reason codes <u>New clarification on</u> – Specific attributes to identify counterparties in SCT and SDD transactions – Non-euro denominated accounts held by EPC SEPA scheme participants – Reasons to amend the SDD Core/ B2B mandate

1. Introduction

This document has been created in order to avoid a fragmented approach in the manner in which the SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) Rulebooks are implemented.

In this document the European Payments Council (EPC) provides guidance and, where feasible, recommendations to EPC SEPA scheme participants on how to handle situations that are not as such described in the Rulebooks. This document will be updated from time to time by the EPC, once new questions and issues arise and need clarification.

2. General Questions & Answers on SCT & SDD

2.1. How should a Beneficiary Bank, Debtor Bank or CSM act if it receives an SCT or an SDD transaction which includes characters not supported by the Latin character set?

EPC SEPA scheme participants and their customers must be able to support the Latin character set commonly used in international communication, which are as follows:

a b c d e f g h i j k l m n o p q r s t u v w x y z

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

0 1 2 3 4 5 6 7 8 9

/ - ? : ( ) . , ' +

Space

EPC SEPA scheme participants and their customers throughout SEPA cannot be required to support the full character set used in all SEPA countries.

However, there may be bilateral or multilateral agreements to support one or more sets of characters beyond the Latin character set referred to above.

More information on this subject can be found in the document EPC2017-08 'Best practices SEPA Requirements for an Extended character set' which contains a set of best practices to be used in dealing with local language and special characters used in some SEPA countries.

2.2. Non-euro denominated accounts held by EPC SEPA scheme participants

Section 2.4 of the SCT rulebook and section 2.5 of the SDD rulebooks respectively specify that all SCT and SDD transactions are in euro in all process stages. The accounts of the Originator, the Beneficiary, the Debtor or the Creditor may be denominated in euro or any other currency.

Subject to the Terms and Conditions of the Debtor Bank or Creditor Bank for SDD and of the Originator Bank or Beneficiary Bank for SCT, payment service users can use non-euro denominated accounts for SCT and SDD transactions. This means an EPC SEPA scheme participant may only reject or return SCT or SDD transactions if the selected account is not designated to send or to receive SEPA payments.

In case of SDD and SCT r-transactions, the transferred amount will be the original euro amount of the initial SDD collection and of the initial SCT instruction (except for SCT Recall, see section 4.1).

3. Questions & Answers SEPA Direct Debit (SDD)

3.1. What timeline needs to be respected to present SDD Collections to the Debtor Bank?

All SDD Core and SDD B2B Collections presented by the Creditor Bank for the first time, on a recurrent basis or as a one-off Collection can be presented up to D-1 Inter-Bank Business Day (D-1) to the Debtor Bank.

3.2. What order in sequence types need to be respected when presenting the first SDD Core/ B2B Collection and subsequent recurrent Collections under a specific SDD Core/ B2B mandate?

The SDD attribute AT-21 – The Transaction / Sequence Type – specifies that the use of the sequence type 'First' (FRST) is **optional** to indicate the first Collection of a series of recurrent Collections.

This means that a Collection being the first in a series of recurrent SDD Core/ B2B Collections can be presented as a "First" (FRST) or as a "Recurrent" (RCUR). Collections with the sequence type FRST or with RCUR are processed in the same way.
The Debtor Bank will have to check if the transaction is the first of a series or a recurrent one against its mandate database and process accordingly.

The Creditor can continue to provide the sequence type FRST to present a SDD Core/ B2B Collection for a first time under a new SDD Core/ B2B mandate, or can decide to present this first Collection already with the sequence type RCUR.

The Debtor Bank will not reject a SDD collection with the reason code AG02 "incorrect sequence type" if a Creditor does not use the optional sequence type FRST.

The Creditor needs to apply the sequence type LAST when it wants to indicate a Collection as the last one in a series of recurrent Collections under a given SDD Core/B2B mandate.

3.3. What can be the reasons to amend the SDD Core/ B2B mandate?

The EPC issued the document EPC261-15 'EPC Clarification Paper - Change of Creditor or Creditor Reference Party'. This document clarifies whether a new SDD mandate is required in case of a change of the Creditor or of the Creditor Reference Party.

Apart of this specific clarification paper, the SDD attribute AT-24 – The Reason for Amendment of the Mandate – specifies the specific SDD mandate attributes that the Creditor and/or the Debtor can amend.

With respect to the change of the attribute AT-07 – The Debtor specifying another account to be debited in the same bank or in another bank – the SDD Core and SDD B2B Implementation Guidelines foresee the acronym SMNDA to highlight such change. In the versions of the SDD Implementation Guidelines effective until 20 November 2016, the acronym 'SMNDA' was used to indicate Same Mandate with a **New Debtor Agent**.

However, when the Creditor only receives the IBAN - in accordance with the IBAN-Only rule in the SEPA Regulation[1] - it will not always be possible to derive if an account change took place in the same or in another SDD scheme participant. To better

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[1] Regulation (EU) No 260/2012

accommodate this situation, the definition of the acronym 'SMNDA' has been updated to indicate <u>Same Mandate with a</u> **New Debtor Account**.

If the field 'Amendment Indicator' in the SDD Collection message is set on 'true' and the field 'Original Debtor Account' is set to 'SMNDA' in the pacs.003 bank-to-bank collection message, it indicates the same mandate with new Debtor Account. In case of an account change within the same SDD Scheme Participant, the code 'IBAN' is allowed.

3.4. How should a Debtor Bank act if it receives an SDD Collection that contains amendments which are the same as the original details? Process or reject?

<u>Recommendation: Reject.</u>

Sending an SDD Collection with mandate amendments which are the same as the original ones is not consistent with the provisions of the SDD Rulebooks. When the amendments are the same as the original details, it may be an error in the Collection. Processing on the basis of erroneous details may be seen as an unauthorised direct debit. Debtor Banks may contact the Debtor before rejecting in such exceptional cases.

In such cases, the reject reason code to be applied is MD02 "Mandate data missing or incorrect".

3.5. What original Creditor ID (CID) and/or Unique Mandate Reference (UMR) needs to be mentioned in the amendment indicators in case of subsequent changes of the CID and/or UMR?

In case a Creditor changes his CID and/or the UMR, The Creditor Bank has to set the amendment indicator to "true" in the pacs.003 bank-to-bank collection message and the original CID and/or UMR needs to be indicated in the tags for amendment details.

In case the Creditor would change his CID and/or UMR for a subsequent time, the question could be raised which CID and/or UMR should be indicated as original CID and/or UMR: the first one ever used, or the previous one (i.e. most recently used).

The SDD Rulebooks do not describe a distinct handling for a first-time CID and/or UMR amendment versus a subsequent CID and/or UMR amendment. In case a CID and/or UMR amendment would occur for a second time, the last valid (i.e. most recently applied) CID and/or UMR should be indicated as original CID and/or UMR in this second amendment.

3.6. Re-presentation of a SDD Collection being part of a series of SDD Core/ B2B Collections: what sequence type to be used?

The Creditor can select the sequence type RCUR[2] to re-present a first or a subsequent Collection within a series of SDD Collections under a specific SDD mandate, irrespective if the original SDD collection led to one of the following SDD R-transactions:

- Reject by the Creditor Bank, the CSM or the Debtor Bank
- Refusal by the Debtor
- Return by the Debtor Bank
- Refund within eight weeks under the SDD Core Scheme
- Refund linked to an unauthorised SDD Collection

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[2] Sequence type FRST is theoretically also possible but is not recommended as it is an optional sequence type

3.7. How should an One-off SDD Core/ B2B Collections be represented?

When a one-off Collection is re-presented in case the original one-off Collection failed, it must be re-presented as a one-off direct debit containing the same UMR and the CID as in the original one-off Collection.

3.8. What do the SDD R-transaction reason codes actually stand for? In what instances could the Creditor re-present the SDD Collection?

Creditors can consult the document [EPC173-14 'EPC Guidance on reason codes for SDD R-transactions'](#) to correctly interpret the reason codes given in the R-transaction related to their unsuccessful initial SDD Collection. This document also provides the Creditor with suggested actions for each SDD R-transaction reason code.

A **Reject** reason given by the **Creditor Bank** is an indication to the Creditor that the previously sent Collection cannot be processed as such and has to be corrected before being possibly re-sent and before further collections of the same series are sent. Depending on the reject reason given by the Creditor Bank, the Creditor may be able or not to re-send the Collection.

A **Reject** reason given by the **CSM** shows the Creditor Bank that the collection cannot be routed as such and that either the Creditor Bank or the Creditor has to review it before possibly re-sending it and before sending further collections of the same series. Depending on the reject reason given by the CSM, the Creditor Bank could re-send or decide not to re-send the Collection.

A **Reject** reason or a **Return** reason given by the **Debtor Bank** is an important information for the Creditor which may inhibit the re-sending of the collection and may even result in no further sending of Collections (e.g., if the Debtor is deceased or the account has been closed).

A **Refusal** by the **Debtor** expresses his will not to pay the Collection. The Creditor has then to decide whether or not to re-send the collection, in relation with the reason code and/or information received from the Debtor. In any case, it is recommended that the Creditor contacts the Debtor before re-sending the collection and/or sending the next collection in order to resolve the issue. Otherwise, this may result in the new Collection also being refused.

A **Refund** within eight weeks after the debit date of the SDD Core collection expresses the will of the **Debtor** not to pay the Collection. The Creditor has then to decide to send it again or not, in relation with the reason code and/or information received from the Debtor. In any case, it is recommended that the Creditor contacts the Debtor before re-sending the collection or sending the next Collection. Otherwise the new Collection may also be refused.

A **Refund** with reason **"Unauthorised transaction"** can only occur after a request for refund of an unauthorised transaction has been issued by the Debtor and if the Creditor has not been in a position to provide indubitable evidence of the mandate or has not answered the request at all. In any case, it is more than strongly recommended that the Creditor contacts the Debtor to clarify the issue before issuing any further Collections. If the mandate has been terminated (after 36 months starting from the date of the latest Collection presented), cancelled, no proof of evidence of the mandate could be provided by the Creditor or the mandate has been never issued, a new mandate has to be signed by the Debtor to allow sending new direct debits.

As a consequence, it is then the responsibility of the Creditor to decide on sending a new Collection based on the reasoning to the refund and/ or in line with the agreement found with the Debtor.

3.9. Overview of the different scenarios concerning sequence questions:

Sequence type of the original SDD sent by the Creditor	Type of R-transaction **Before Due Date:** **- Reject/Refusal Pain.002/Pacs.002** **After Due Date:** **- Return/Refund Pacs.004**	Sequence type of the Re-presented Collection **(with same mandate based on R-transaction)**
First	Reject/Request for cancellation[3]	Recurrent[4]
First	Return	
First	Refund	
Recurrent	Reject/Return/Refund/Request for cancellation	
Last	Reject/Request for cancellation	Last
Last	Return	Last
One-off	Reject/Request for cancellation	One-off
One-off	Return	One-Off
Note: A **refunded** One-off or Last Collection should not be represented as the mandate has expired.		

- Mandate amendments in the Collection do not have any additional impact on the sequence type of the next presented Collection if an R-transaction has been received.

- If a Collection with mandate amendments is rejected, the mandate amendments should be repeated in the re-presentation of the Collection.

- Reason codes do not have any additional impact on the sequence type of the next presented Collection if an R-transaction has been received.

- The initiating party of the R-transaction does not have any additional impact on the sequence type of the next presented Collection if an R-transaction has been received.

3.10. What are the requirements for the pre-notification to be sent by the Creditor?

Prior to sending the Collection to the Creditor Bank, the Creditor notifies the forthcoming debit to the Debtor.

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[3] The use of the "Request for cancellation" is subject to a bilateral agreement between the Creditor Bank and CSM (see chapter 4.4 of the SDD Rulebooks)
[4] Sequence type FRST is theoretically also possible but is not recommended as it is an optional sequence type

The pre-notification may take the following form:
- The schedule of payments for a number of repetitive direct debits for an agreed period of time
- The invoice which is to be paid by direct debit
- An individual advice of a Collection for a specified Due Date
- Or any other document informing the debtor of the amount and due date of the debit

Alternatively, any electronic communication means as agreed between the Creditor and Debtor can be used for the pre-notification.

By default, the Creditor must send the pre-notification to the Debtor at the latest 14 calendar days before the due date. The Creditor and the Debtor are however free to agree on another timeline, depending mainly on the type of commercial transaction and on the form of the pre-notification. However, it is recommended that if a shorter timeline is agreed, it is done in such a manner that will allow the Debtor sufficient time to provide the required funds in his account. If such pre-notification is not carried out in a proper manner, this may result in a return or a refund.

3.11. How should a Debtor Bank act if it receives a first SDD Collection which contains mandate amendments? Process or reject?

Recommendation: Process.

There may be a business reason behind the fact that in the time lapse between the date of signing the mandate and the first Collection date, some data elements of the mandate have changed (e.g., due to migration issues, some countries made amendments to the legacy mandates to be sent with the first SEPA Collection).

3.12. Clarification on specific attributes to identify counterparties in SDD Collections

The SDD Rulebooks foresee the following attributes to identify counterparties in SDD Collections:
– AT-27 Debtor Identification Code
– AT-37 The identification code of the Debtor Reference Party
– AT-39 The identification code of the Creditor Reference Party

These attributes refer to elements of the ISO 20022 XML message standard to transfer information or codes. The codes inserted in each of these attributes allow a unique and unambiguous way of identifying an organisation or an individual. This can be useful for the automated and straight-through-processing identification of the counterparties involved in the SDD Collection.

Codes that can be used in these attributes are the Fiscal Code, the VAT Code, the Enterprise Registration Number, the Business Identity Code, the Organization Code, the Trade Register Number, the Business Register Number, the National Tax ID, the Customer Code (for AT-27 and AT-37 only) and the Supplier Code (for AT-39 only).

4. Questions & Answers SEPA Credit Transfers (SCT)

4.1. In the event of an SCT Recall, where the SCT was subject to a currency conversion at the Beneficiary Bank, who should be liable for any potential currency loss?

A Recall is always initiated by the Originator Bank, possibly on behalf of the Originator. Neither the Beneficiary nor the Beneficiary Bank has any influence on it. As a consequence, they should not bear any loss related to it.

The positive response of the Beneficiary Bank to a Recall request is a return message with a specific return reason "following cancellation request" (FOCR). The scheme allows for the Beneficiary Bank to charge a fee for such a positive response. This fee is clearly identified in the return message, which also contains the amount of the original SCT and the amount of the return transaction. Currency conversion losses may be included in the Recall fee that may be charged by the Beneficiary Bank.

In exceptional cases, currency conversion loss can be settled outside the Recall procedure by rejecting the Recall request and settling the issue in a bilateral way.

4.2. Auto-conversion practices: can an SCT be converted into a non-euro currency before reaching the Beneficiary Bank?

Reference is made to Section 2.4 of the SCT rulebook which states that "all transactions are in euro in all process stages". In other words the amount of the transaction must remain unchanged and expressed in euro until it reaches the Beneficiary Bank. This also means that currency conversion of an SCT to be credited to a non-euro account can only be carried out by the Beneficiary Bank, and currency conversion of an SCT to be debited from a non-euro account can only be carried out by the Originator Bank.

4.3. Clarification on specific attributes to identify counterparties in SCT transactions

The SCT Rulebook foresees the following attributes to identify counterparties in SCT transactions:
– AT-09 The identification code of the Originator Reference Party
– AT-10 The Originator identification code
– AT-24 The Beneficiary identification code
– AT-29 The identification code of the Beneficiary Reference Party

These attributes refer to elements of the ISO 20022 XML message standard to transfer information or codes. The codes inserted in each of these attributes allow a unique and unambiguous way of identifying an organisation or an individual. This can be useful for the automated and straight-through-processing identification of the counterparties involved in the SCT transaction.

Codes that can be used in these attributes are the Fiscal Code, the VAT Code, the Enterprise Registration Number, the Business Identity Code, the Organization Code, the Trade Register Number, the Business Register Number, the National Tax ID, the Customer Code (for AT-09 and AT-10 only) and the Supplier Code (for AT-24 and AT-29 only).