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1. Background to SEPA

1.1 Introduction

People travelling from one euro-area country to another can easily pay for goods and services in cash using the single currency. However, making cross-border payments within the euro area by other means (for example, by credit transfer or by using a debit card) can be more difficult, due to technical, legal and market barriers that remain from the period prior to the introduction of the euro.

The Single Euro Payments Area (SEPA) initiative aims to overcome these barriers, thereby creating a single market for euro-denominated retail payments. SEPA will allow payment systems users to make cashless, euro-denominated payments to payees located anywhere in the EU and EEA, using a single payment account and a single set of payment instruments.

The purpose of this Guide is to provide an overview of SEPA, its history and context, so as to offer the reader some understanding of the programme and its ultimate goals, and their implications for all providers and users of payment services. It also seeks to provide some more detailed background information about SEPA for interested parties and to outline, at a high level, a guide to the migration of Ireland’s existing retail payment systems to two new pan-European SEPA payment schemes – the SEPA Credit Transfer Scheme (SCT) and SEPA Direct Debit Scheme (SDD). These schemes are the key components of SEPA and both are described in some detail in this document. The ‘SEPA Cards Framework’ and the Single Euro Cash Area (SECA) are further important aspects of SEPA; however, these are more long-term in nature than SCT and SDD and therefore not covered in detail in this document.

1.2 SEPA and the Single Market

The objective of the Single Market concept is to facilitate the free movement of people, goods, services and capital throughout the EU. On a practical level, it means that all EU citizens can live, work, study and do business throughout the EU, as well as enjoying competitively-priced goods and services. Since its inception in 1993, the Single Market has opened up economic and working opportunities that have transformed the lives of hundreds of millions of Europeans.

The EU has had a common currency since 1 January 1999, when the euro was introduced as an accounting currency; euro banknotes and coins were put into circulation three years later on 1 January 2002. As of the time of writing, 17 of the 27 EU member states are using the euro.

The next major milestone on the road to completing the Single Market is SEPA, the Single Euro Payments Area. To quote the former EU Commissioner for Internal Market and Services, Charlie McCreevy:

“With SEPA, our aim is to produce a world-class payments system for Europe. For that we need to move away from fragmented, monopolistic, national payment markets and move to an EU-wide market where economies of scale and increased competition can drive efficiency and innovation to all our benefit.”
1.3 The impact of SEPA

SEPA will have at least some impact on every citizen, merchant, public administration and corporate entity (regardless of size) currently holding a payment account with a bank. Regardless of their own location, holders of such accounts in all countries participating in the SEPA initiative (at the time of writing, the EU member states, together with Iceland, Liechtenstein, Norway, Switzerland and Monaco) will be able to make and receive euro-denominated payments under the same basic terms and conditions, whether the payments concerned are made within or across national borders.

SEPA is not only about improving the processing efficiency of euro-denominated cross-border payments – it is a major project that will also have an impact on participating national payments markets. SEPA will introduce new business rules in relation to payments and implement common standards for issuing and executing electronic payment instructions in all participating countries. All electronic payments, both within and across national borders, will be affected and all credit transfers, direct debits and card payments will eventually migrate to SEPA standards.
payment systems (essentially, the credit
transfer and direct debit schemes operated
by the Irish Retail Electronic Payments
Clearing Company - IRECC) will co-exist
with their new SEPA equivalents until 1
February 2014. From this date, it will
become mandatory under applicable EU
legislation to retire existing ‘national only’
payment systems and migrate all electronic
payments to the SEPA standards.
2. Overseeing SEPA

2.1 Overall responsibility for SEPA

At the policy level, the SEPA initiative has been driven by the European Commission (EC) and the European Central Bank (ECB). However, in practical terms, the project is being delivered by the European banking industry.

2.2 SEPA at a European level

SEPA is being implemented in thousands of banks in 32 countries – the 27 EU member states, together with Norway, Iceland, Liechtenstein, Switzerland and Monaco.

The European Payments Council (EPC) – an alliance of European banking/payments industry representative bodies like the Irish Payment Services Organisation (IPSO) – was established in 2002 to deliver SEPA. The EPC’s constitution gives it decision-making status on behalf of its payments industry members.

Broadly speaking, the EPC draws its representation from the three categories of banks in Europe – commercial banks, savings banks and co-operative banks. In an Irish context, only those banks active in the retail payment system (i.e., AIB, Bank of Ireland, Permanent TSB, Ulster Bank, National Irish Bank and BNP Paribas) are represented. The EPC has a number of working and support groups, the work of which is guided by a Co-ordination Committee; in addition, the EPC Plenary meets four times each year.

2.3 SEPA within Ireland

The implementation of SEPA within Ireland is overseen by the National Payments Plan (NPP) Steering Committee, which was established in 2012 to modernise the way payments are made in Ireland. An NPP SEPA Sub-group has been formed, consisting of representatives of the Central Bank of Ireland (the Central Bank), Government, banks, businesses and consumers (see Figure 2 below).

The NPP-SEPA Sub-group has already met several times, and will meet monthly until the SEPA migration process has been concluded. Its role is to track the implementation of SEPA in the public and private sectors, and to co-ordinate communications and other initiatives required to ensure the successful implementation of SEPA in Ireland.

Consideration will be given to expanding the NPP/SEPA Sub-group as required as SEPA implementation progresses – for instance, workshops may be organised for stakeholder groups such as the major utilities and direct debit originators, and for the main providers of payments/payroll software.

The Central Bank’s involvement with the NPP-SEPA Sub-group (and with SEPA as a whole) derives from its Eurosystem role and from its overall responsibility for payment systems policy and oversight in Ireland, as a consequence of which it will lead/co-ordinate the overall national SEPA migration/implementation effort.
The Central Bank is also responsible for liaison with/reporting to the ECB and the EU Commission on SEPA matters.

The Department of Finance is responsible for enacting the legislation required at national level to support SEPA, and also has an important role to play in terms of leading/co-ordinating the migration of Government departments to the new SEPA standards.

The Irish Payment Services Organisation (IPSO), together with its member banks, has worked with the EPC to develop the SCT and SDD payment schemes and the underlying technical infrastructure necessary to build the integrated euro payments market. IPSO continues to be responsible for co-ordination of the efforts of its member banks at a technical level as progress is made towards full SEPA migration by the 1 February 2014 end-date.

To this end, IPSO co-ordinates the work of a SEPA Implementation Task Force (SITF), which includes representatives of all of the retail banks operating in Ireland and of the Central Bank; SITF is a banking community/Central Bank ‘technical’ group with only limited involvement of payment systems users. IPSO also assumes the role of the National Adherence Support Organisation (NASO) for the Irish banking community – the role of the NASO is to provide a link between the banks participating in the SCT and SDD schemes with the scheme management function of the EPC.

Like other participating banking communities, IPSO is also represented on the board of the EPC, and on its Co-ordination Committee. This committee is a key policy development body within the EPC structure. IPSO staff members represent the Irish banking community on various EPC working groups.

The Irish banking community (whether collectively via IPSO or acting individually in dealing with their own customers) has already developed SEPA compliant ‘in house’ payment systems and is positioned to offer SCT and SDD payment services to its customers; over the coming months the banks will make any necessary changes to underlying contracts/account terms and conditions and notify these to their customers, and the migration process will get underway.

Businesses – whether small, medium or large – will have to identify and (in co-operation with their banks and, where relevant, software/systems providers) carry

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**Figure 2: Structure of the NPP-SEPA Sub-group**
out all necessary changes to their business processes to make them SEPA compliant.

Individual consumers will need to be aware of the implications of SEPA for the payments that they make and/or receive, and the National Consumer Agency has an important role to play in this regard.

From the foregoing, it can be seen that SEPA is very much a national issue, requiring engagement at some level by regulators, payment services providers and payment services users in Ireland.
3. Implementation timescale

3.1 What has been done so far?

The ‘design stage’ of SEPA is now complete, the EPC having defined and implemented the new SEPA payment schemes (the SEPA Credit Transfer Scheme, or SCT, for credit transfers and the SEPA Direct Debit Scheme, or SDD, for direct debits) together with some broader frameworks, rules and standards for euro-denominated payments.

The technical standards for SCT and SDD have been agreed, as has a clearing and settlement framework, and the scheme rulebooks have been developed and published. SCT and SDD are both now in operation, the former since January 2008 and the latter since November 2009.

In relation to payment cards, a ‘SEPA Cards Framework’ has been agreed and is being implemented by banks, payment card schemes and payment card processors.

In order for a major initiative like SEPA to work across so many countries, a common legal framework for payment services has also had to be put in place. This is the EU Commission’s Payment Services Directive (or PSD), which was adopted by the European Parliament in April 2007 and subsequently transposed into national law in Ireland as the Payment Services Regulations, 2009. The PSD establishes the necessary legal framework for SEPA payments and facilitates consistent payment execution in all relevant states. The PSD also applies to most existing national payments products, and will continue to do so until these are phased out.

The PSD also harmonises the market access requirements for payment services providers other than banks; the expectation is that this new category of payment services provider, known as payment institutions, will become increasingly involved in the retail payments market and thereby lead to wider choice and better competition in this area.

3.2 Implementation timeframe

Figure 3 below provides an indication of the timeframe for SEPA implementation from the inception of the project through to its conclusion in 2014.

The initial expectation was that full migration to SEPA would be a process led by the banking industry, with providers and users of payment services both choosing to move to the new technical standards and payment instruments as these became available.

However, it gradually became clear that SEPA was being implemented rather more slowly than had originally been expected, evidenced in particular by the low uptake of SCT and SDD in most countries. There was also a fear that SEPA might ultimately prove to be an initiative applicable only to cross-border payments, leading to the creation of what anecdotally become known as the ‘mini-SEPA’, in which SCT and SDD would co-exist in the long term with legacy ‘national’ payment instruments and schemes. This was considered by the
authorities to be an undesirable outcome, with significant costs having been incurred, and significant effort expended, for no real gain in terms of either streamlining or modernising the European payment systems landscape.

As a consequence, the EU Commission decided to issue a Regulation making SEPA migration a mandatory process. In this regard, Regulation 260/2012 (commonly referred to as the ‘SEPA migration end-date Regulation’) introduced a set of common standards and general technical requirements for credit transfer and direct debit payments (in effect, the EPC’s SCT and SDD schemes) and set a binding end-date of 1 February 2014 for banks and payment systems users to migrate all payments from existing national credit transfer and direct debit payment schemes to their SEPA equivalents. Regulation 260/2012 entered into force on the day following its publication in the Official Journal of the European Union on 30 March 2012.

### 3.3 Making SEPA work

SEPA is not just a ‘one-off’ project that will end with migration to SCT and SDD. It would seem to be inevitable that further new payments products and services will continuously evolve, given the pace of technological change in the modern world. All stakeholders in every country participating in SEPA will need to show strong support and demonstrate a clear commitment to continue to drive the payments agenda forward. Only then will a more competitive and integrated payments market emerge that will continue to benefit all citizens.

SEPA will also need the active participation
of the most important players, the users of the new payment schemes – public administrations, corporates of all sizes and individual consumers. For SEPA to really succeed, all payment systems users are encouraged to migrate to the new schemes at the earliest possible opportunity.

It is therefore up to all providers and users of payment services in the months and years ahead to ensure that SEPA becomes a success and that the process of paying for goods and services throughout all participating countries will become as simple as it is within national borders today.
4. Impact on users

4.1 Who will be affected by SEPA?

Once SEPA has been fully implemented, all electronic retail payments in the countries covered by this initiative will move from existing ‘national only’ payment instruments and technical standards to pan-European equivalents. SEPA will therefore have an impact on all users (whether individual consumers or businesses) and providers (e.g., banks and payment institutions) of retail payment services.

4.2 SEPA and consumers

In a SEPA environment, consumers can rely on just one bank account and one payment card to make and receive euro-denominated payments to and from anywhere in the area. For example, an Irish consumer needing to make regular euro-denominated payments to a utility company located in another country participating in SEPA could, if they so wish, make these payments by direct debit from their Irish bank account, rather than needing to open a bank account in the country concerned to do so. Furthermore, the cost of making an SCT or SDD payment to another SEPA country will be the same as the cost of making the same payment within Ireland.

It should, however, be remembered that the mandatory aspects of the SEPA initiative only apply to euro-denominated retail payments within and between the participating countries made by electronic means – payments in currencies other than the euro and to/from non-SEPA countries may still attract foreign exchange charges and/or higher transaction fees.

The principal change for consumers will be in terms of how their bank and their account will be identified for the purposes of making and receiving payments. Once the SEPA migration process has been fully concluded, consumers will need to use BIC (Bank Identifier Code) and IBAN (International Bank Account Number) to identify their bank and their account rather than the NSC (National Sort Code) and Account Number (sometimes referred to as BBAN, or ‘basic bank account number’) that they currently use.

BIC and IBAN information has for some time now been carried on all bank account statements, and many consumers will as a consequence possibly already be aware of these identifiers. However, those who have not yet done so should at this stage familiarise themselves with their BIC and IBAN details.

The transition to SEPA should be seamless for consumers who currently have direct debit arrangements in place with their banks for regular payments such as utility bills or mortgage repayments. Existing direct debit mandates will remain valid in the SEPA environment. While payees collecting amounts due via direct debit will need to make changes to their internal systems and processes to cater for SEPA, the payers do not have to take any specific action in this regard.

Individual consumers will be informed directly by their banks about any changes to their account terms and conditions arising from SEPA implementation. However, it is noteworthy that many of these changes are to the benefit of consumers, providing
improved entitlements around issues such as direct debit refund rights and the ability to place restrictions on the extent to which direct debits can be applied to their account.

Finally, in a SEPA context consumers can no longer be obliged by a payer or payee to maintain a bank account in any particular country for the purposes of making or receiving payments. An account anywhere in SEPA can make or receive a euro-denominated electronic payment from any other account in SEPA – for example, an Irish person working in France could have his French employer pay his salary directly to an Irish bank account and use that account to pay rent by direct debit for his or her apartment in France. Likewise, someone owning a holiday property in Spain could pay Spanish utility bills by direct debit from an Irish bank account, or alternatively just operate a bank account in Spain and use that account to pay Irish utility bills by direct debit. In summary, SEPA will allow consumers to bank wherever it suits them best and wherever they can obtain the best terms – they should no longer be constrained in this regard by national borders.

4.3 SEPA and businesses

SEPA will have a bigger impact on businesses than on individual consumers.

The existence of a multitude of different national payment systems, payment schemes and payment message formats has always posed a significant obstacle to the aspirations of companies seeking opportunities in markets outside their own country. Availability of a standardised payments infrastructure in SEPA should open up new possibilities to expand businesses beyond national borders.

Once SEPA has been concluded, it will be possible to make euro-denominated payments between any accounts in SEPA just as easily as it is possible today to make payments within national borders. Common standards, faster settlement and simplified processing will improve cash flow, reduce costs and facilitate access to new markets. Moreover, corporate payment systems users can expect to benefit from the development of innovative products offered by payment services providers.

As is the case for individual consumers, businesses will also need to use BIC and IBAN to identify their bank and their account rather than the NSC and Account Number information that they currently use. However, the implications of this change will be more significant for businesses, given that they can be expected to have designed internal systems (e.g., for payroll and accounting) around the existing ‘national only’ payments standards. The SCT and SDD schemes are both built using the ‘ISO 20022 XML’ standard rather than the IPSO ‘Standard 18’ used by the existing Irish credit transfer and direct debit schemes – businesses and their IT systems suppliers can obtain detailed information on the SEPA standards, and the implications of moving to these from the existing standards, from their banks.

In order to prepare for SEPA, businesses need to assess, without delay, the likely impact of this initiative on their internal systems and processes. Businesses will have to either modify existing information technology platforms and delivery channels or develop new ones. Indeed, many businesses may wish to take the opportunity to use SEPA developments to replace or
upgrade their existing systems.

In the first instance, businesses – especially those with significant payment volumes, in particular on the direct debit side – should talk to their banks about issues such as the SEPA payment products/services that they will be offering, payment file formats, facilities for conversion of existing NSC/BBAN account information to BIC/IBAN and managing their overall timetable for SEPA migration.

Businesses should remember that SEPA may affect many aspects of their operations, and ensure that the potential impact on areas such as accounts payable, accounts receivable, payroll and treasury are all considered. For example, as well as using a changed file format, the SDD scheme operates to different timelines than the existing Irish direct debit scheme – businesses need to be aware of these differences and their implications for their payment/collection processes.

It is also critical that IT systems providers are involved from the outset, whether the systems concerned have been developed internally or sourced from an external supplier. Moving to the ISO 20022 XML standard could have significant implications for the overall direction of a company’s future IT strategy, and these need to be fully considered in the context of SEPA migration.

Finally – as is the case with individual consumers – businesses should look for opportunities to consolidate or otherwise restructure their payments activities so as to benefit to the greatest extent possible from the opportunities provided by SEPA for reducing costs and improving efficiency. It is perhaps worth noting here that information technology providers and consulting firms can significantly contribute to managing the SEPA process at the level of individual businesses by making available the support to identify appropriate strategies and to implement necessary changes.

### 4.4 Assistance with conversion

IPSO has recently announced the development of a new SEPA conversion service for use by both individual consumers and businesses. This service will enable bank customers to convert their existing NSC and Account Number information to the BIC and IBAN standards required for SEPA.

The new service will have four distinct elements and will allow the following:

- Consumers and SMEs to convert a single NSC and Account Number to BIC and IBAN;
- Consumers and SMEs to validate an IBAN for any country in SEPA;
- SMEs and Corporates to convert bulk volumes of NSC and Account Number data to BIC and IBAN; and
- SMEs and Corporates to validate the new XML format of their bulk files (for both credit transfers and direct debits).

The service will be free of charge and should be available through the IPSO website by the end of this year. It will be easy to use and should be of significant help to all users of payment services when migrating to the SEPA standards.

### 4.5 Communicating SEPA
The NPP-SEPA Sub-group is now working on a structured plan to define the best approach to communicating with all relevant stakeholder groups in Ireland to explain and agree the extent of their responsibilities vis-à-vis the migration to SEPA. The primary stakeholders (e.g., the Central Bank, the Government, IPSO, the banks, etc.) and their respective roles will also be identified and their responsibilities in this important area defined.

The primary focus of the communications plan will be to ensure that all stakeholders have the relevant and required information to support their migration to the SEPA payments environment.

This plan, when fully developed, will cover:

- The approach to communication via all available media (e.g., awareness campaigns in the main media, individual banks’ communications with their customer bases, websites, etc.);
- The degree of engagement necessary when dealing with all relevant stakeholder groups;
- Assessment of the main customer impacts and the associated requirements for change, as well as how best to manage this change;
- Provision of information as to ‘who’s who’ within the payments industry and the primary representative bodies;
- The best approach to engagement with the various parties with vested interests in SEPA migration (e.g., software vendors, corporates/SMEs, IPSO, the Government, the Central Bank, the banks, etc.);
- Guidance for payment systems users in terms of where to obtain all necessary information.

Regular updates regarding SEPA activity will be available on the Central Bank and IPSO websites; relevant information can also be found on the websites of the European Central Bank, the EU Commission and the EPC.
Appendix 1 – The SEPA Credit Transfer Scheme (SCT)

Overview

The EPC’s SEPA Credit Transfer Scheme (SCT) operates in a similar manner to the existing IRECC credit transfer scheme.

SCT facilitates the processing of euro-denominated credit transfer payments throughout SEPA. With SCT, there will be one standardised payment method available for all SEPA countries – there will be no difference between credit transfers executed within or across national borders. Compared to existing ‘national only’ equivalents such as IRECC, SCT provides benefits to payment systems users in terms of greater efficiency, additional functionality and greater ease of use; SCT also offers significant improvements in terms of ‘straight through processing’ (STP).

The following are the key features of the SCT scheme:

- Payer and payee, and their banks, are identified using BIC and IBAN;
- Payees will receive funds within one business day of the payment being executed;
- The full amount of a payment will always be received by the payee. Payers and payees using SCT can each only be charged by their own payment service provider;
- More detailed remittance information can be included with a payment than at present – up to 140 characters are permitted. This can be of great benefit to both the payer and the payee in terms of tracking and reconciling their payments;
- ‘One-off’ and ‘bulk’ payments (i.e., one debit to a payer’s account with credits to multiple beneficiaries) are both supported;
- Rejected and returned payments are automated;
- Specific data elements can allow payees to outsource their payments business to appropriate payment services providers.

A detailed comparison of the existing IRECC credit transfer scheme and SCT is set out in Table 1 below. (Note: In the table, ‘D’ represents the day on which the payment is initiated. All references to ‘D’ and ‘D+- #’ relate only to business days.)
Table 1: Comparison of IRECC and SEPA Credit Transfer Schemes

<table>
<thead>
<tr>
<th></th>
<th>IRECC</th>
<th>SCT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Schemes available</strong></td>
<td>IRECC</td>
<td>SCT Core</td>
</tr>
<tr>
<td><strong>Creditor file format</strong></td>
<td>IPSO Standard 18</td>
<td>PAIN.001 - ISO20022 XML</td>
</tr>
<tr>
<td><strong>Account details</strong></td>
<td>National Sort Code (NSC) and domestic bank account number (NSC/BBAN).</td>
<td>Bank Identifier Code (BIC) and International Bank Account Number (IBAN).</td>
</tr>
<tr>
<td><strong>Processing timelines</strong></td>
<td>Bank dependent – debit to payer and credit to payee normally both take place on D.</td>
<td>Bank dependent – debit to payer may take place on D or on D-1, with credit to payee on D or D+1.</td>
</tr>
<tr>
<td><strong>Rejected payments</strong></td>
<td>If beneficiary bank is unable to credit, payment is returned.</td>
<td>If beneficiary bank is unable to credit, payment is returned with reason code ‘RJCT’ and appropriate code for return.</td>
</tr>
<tr>
<td><strong>Additional information</strong></td>
<td>Reference information and name of payee are available on credit.</td>
<td>Reference information and name of payee are available on credit; up to 140 characters of additional remittance information can be catered for.</td>
</tr>
<tr>
<td><strong>Settlement</strong></td>
<td>Bi-lateral exchange via EBA’s STEP2 system.</td>
<td>Bi-lateral settlement via pan-European automated clearing house (e.g., EBA’s STEP2 system).</td>
</tr>
</tbody>
</table>
Overview

Unlike the SEPA Credit Transfer Scheme, the EPC’s SEPA Direct Debit Scheme (SDD) has a number of significant differences by comparison with the existing IRECC direct debit scheme.

SDD allows companies to collect payments (whether ‘one-off’ or recurring) from customers throughout SEPA using a single bank account. There is no need for either payers or payees to maintain an account in each jurisdiction in which they collect or make payments. SEPA removes the differences between ‘national’ and ‘cross-border’ direct debit collections and permits the use of a standard message format to collect payments.

SDD operates using a so-called ‘creditor mandate flow’ (CMF), where the creditor is responsible for both issuing and maintaining the mandate. The debtor must sign the mandate to authorise collection of payments from their account and return the signed mandate to their creditor. The creditor must keep a copy of the mandate for verification purposes. SDD supports two mandate types: ‘one-off’ mandates, used to collect single payments, and ‘recurring’ mandates, where the creditor can indefinitely continue to collect payments for the purposes described on the mandate. The SDD message format contains both mandate and payment information on every direct debit collection request.

There are currently two SDD schemes available. The ‘Core’ scheme allows a creditor to collect funds from a debtor’s account, provided that a signed mandate has been provided by the debtor to the creditor; the debtor can be either an individual consumer or a business. The ‘B2B’ (i.e., ‘business-to-business’) scheme enables businesses in the role of debtors to make payments by direct debit. To do so, the business concerned must inform their bank of the signed mandate details and authorise collections on foot of the mandate. Details of the two schemes are provided in Table 2 below. (Note: In the table, ‘D’ represents the day on which the payment is initiated. All references to ‘D’ and ‘D+/ - #’ relate only to business days.)

An additional optional scheme, which will introduce shorter timelines for banks participating in the SDD ‘Core’ scheme, is planned for November 2012.

Full details of these schemes are available in the applicable rulebooks issued by the EPC and available from that organisation’s website:

http://www.europeanpaymentscouncil.eu/knowledge_bank_list.cfm?documents_category=v=1

Implications for consumers

SDD provides a standardised direct debit payment service that will enable consumers to pay for goods and services in any SEPA country without having to open a bank account in that country. As SDD is fully compliant with the provisions of the EU Commission’s Payment Services Directive (PSD), consumers can enjoy greater protection and refund rights around direct debit payments, access to clear and concise
information with regard to their rights and obligations, and a notification service resulting in greater overall transparency.

As the EU Commission’s SEPA migration end-date Regulation provides for the continued validity of existing direct debit mandates in a SEPA environment, there is no need for execution of new mandates in the context of SEPA migration.

Implications for corporates

SDD enables corporates to collect payments from any account in any SEPA country using a single collection account, thus allowing for greater consolidation and simplification of liquidity and reconciliation. New file formats will, however, be required to send collection files to banks. New terms and conditions apply to the SDD scheme by comparison with the existing IRECC direct debit scheme, and corporates will now be responsible for maintaining mandate records for refund investigation purposes.

Implications for banks

SDD requires development by banks of their systems to support the new message types used for exchanging interbank transactions through an automated clearing mechanism. New clearing and settlement conditions will exist, as banks may choose to clear through the EBA’s STEP2 platform or any equivalent pan-European automated clearing mechanism that may become available in a SEPA context. Banks will need to inform their customers of new terms and conditions arising as a consequence of participating in SDD as either a creditor or a debtor.
Table 2: Comparison of ‘Core’ and ‘B2B’ SEPA Direct Debit schemes

<table>
<thead>
<tr>
<th></th>
<th>SDD ‘Core’ Scheme</th>
<th>SDD ‘B2B’ scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandates</td>
<td>Debtor signs and sends mandate to creditor.</td>
<td>Debtor signs and sends mandate to creditor and to the debtor bank.</td>
</tr>
<tr>
<td>Mandate checks</td>
<td>Debtor bank is not required to check the mandate.</td>
<td>Debtor bank is obliged to check mandate against version provided by debtor.</td>
</tr>
<tr>
<td>Mandate migration</td>
<td>Existing mandates will remain valid in SEPA without the need for any action on the part of either creditor or debtor.</td>
<td>New SDD ‘B2B’ mandates must be signed.</td>
</tr>
<tr>
<td>Collection authorisation</td>
<td>Not required.</td>
<td>Debtor must authorise each collection on the mandate.</td>
</tr>
<tr>
<td>Collection deadlines</td>
<td>For ‘one-off’ or first collections: D-5</td>
<td>D-1 for all collections.</td>
</tr>
<tr>
<td></td>
<td>For recurring or final collections: D-2</td>
<td></td>
</tr>
<tr>
<td>Rejected and refused payments</td>
<td>Permitted up to D.</td>
<td>Permitted up to D.</td>
</tr>
<tr>
<td>Returned payments</td>
<td>Permitted up to D+5.</td>
<td>Permitted up to D+1.</td>
</tr>
<tr>
<td>Reversals</td>
<td>Permitted up to D+2 (In SDD Rulebook version 6.0, will be permitted up to D+5).</td>
<td>Permitted up to D+2 (In SDD Rulebook version 6.0, will be permitted up to D+5).</td>
</tr>
</tbody>
</table>
Appendix 3 - Comparison of the IRECC direct debit scheme and the SDD scheme

Overview

Creditors in the current IRECC direct debit scheme can avail of two schemes, the ‘Core Direct Debit’ scheme and the ‘Direct Debit Plus’ scheme. The two schemes are quite similar, except that Direct Debit Plus:

- allows creditors to sign up customers without requiring a written signature on a mandate (specifically, there is no need for completion of a paper mandate) and
- provides for a shorter advance notice to be given to the debtor before each deduction.

In SDD, a signature (either written or electronic) must appear on the mandate. However, in this regard a so-called ‘additional optional service’ (or AOS) has been proposed by the Irish banking community which will allow the current ‘Direct Debit Plus’ feature to continue under the SEPA scheme, provided that the creditors’ and debtors’ accounts are both held with banks in Ireland.

A detailed comparison of the existing IRECC direct debit scheme and SDD is set out in Table 3 below. (Note: In the table, ‘D’ represents the day on which the payment is initiated. All references to ‘D’ and ‘D+/- #’ relate only to business days.)
Table 3: Comparison of IRECC and SDD schemes

<table>
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<th>IRECC schemes</th>
<th>SDD schemes</th>
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<td>Mandates</td>
<td>Core: original signed mandates maintained by debtors’ banks. DD+: unsigned mandates maintained by creditors.</td>
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<td>Core scheme timelines</td>
<td>D-1 for debit on D.</td>
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<td>Core scheme ‘R-message’ options</td>
<td>Single payment cancellation by debtor/refund request by debtor: up to 13 months from D. Return by debtor bank by D+1.</td>
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<tr>
<td>Core scheme refund rights</td>
<td>Within 8 weeks if amount significantly exceeded expected amount. Up to 13 months for unauthorised transaction.</td>
</tr>
<tr>
<td>B2B scheme timelines</td>
<td>N/A</td>
</tr>
<tr>
<td>B2B scheme R-message options</td>
<td>N/A</td>
</tr>
<tr>
<td>B2B mandate checking and debit authorisation</td>
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</tr>
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<td>Settlement</td>
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</tr>
</tbody>
</table>
Appendix 4 - Glossary

ACH: see automated clearing house.

Acquirer (card acquirer): in point-of-sale (POS) transactions, the entity (usually a credit institution) to which the acceptor (usually a merchant) transmits the information necessary in order to process the card payment. In automated teller machine (ATM) transactions, the entity (usually a credit institution) which makes banknotes available to the cardholder (whether directly or via the use of third-party providers).

ATM: see automated teller machine.

Automated clearing house (ACH): an electronic clearing system in which payment orders are exchanged among participants (primarily via electronic media) and handled by a data processing centre. See also clearing, clearing house.

Automated teller machine (ATM): an electromechanical device that allows authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services (allowing them, for example, to make balance enquiries, transfer funds or deposit money).

Bank Identifier Code (BIC): an International Organization for Standardization (ISO) technical code that uniquely identifies a financial institution. SWIFT is the registration authority for BICs. A BIC consists of eight or eleven characters, comprising a financial institution code (four characters), a country code (two characters), a location code (two characters) and, optionally, a branch code (three characters).

Bulk payments: a group payment instructions to be processed together.

Beneficiary: a recipient of funds (payee).

BIC: see Bank Identifier Code.

Business continuity: a state of uninterrupted business operations. This term also refers to all of the organisational, technical and staffing measures employed in order to: 1) ensure the continuation of core business activities in the immediate aftermath of a crisis; and 2) gradually ensure the continued operation of all business activities in the event of sustained and severe disruption.

Card (payment card): a device that can be used by its holder to pay for goods and services or to withdraw money.

Cardholder: a person to whom a payment card is issued and who is authorised to use that card.

Card issuer: a financial institution that makes payment cards available to cardholders, authorises transactions at point-of-sale (POS) terminals or automated teller machines
(ATMs) and guarantees payment to the acquirer for transactions that are in conformity with the rules of the relevant scheme.

Card scheme: a technical and commercial arrangement set up to serve one or more brands of card which provides the organisational, legal and operational framework necessary for the functioning of the services marketed by those brands.

Cheque: a written order from one party (the drawer) to another (the drawee; normally a credit institution) requiring the drawee to pay a specified sum on demand to the drawer or a third party specified by the drawer.

Chip card (smart card): a card with an embedded microprocessor (chip) loaded with the information necessary to enable payment transactions.

Clearing: the process of transmitting, reconciling and, in some cases, confirming payment instructions prior to settlement, possibly including netting and the establishment of final positions for settlement.

Credit card: a card that enables cardholders to make purchases and/or withdraw cash up to a prearranged credit limit. The credit granted may be either settled in full by the end of a specified period, or settled in part, with the balance taken as extended credit (on which interest is usually charged).

Credit institution: a credit institution is a company duly authorised to carry out banking transactions on a regular basis (i.e., to receive deposits from the public, carry out credit transactions, make funds available and manage means of payment).

Credit transfer: a payment instrument allowing a payer to instruct the institution with which its account is held to transfer funds to a beneficiary.

Cross-border payment: a payment where the financial institutions of the payer and the payee are located in different countries.

Cut-off time: the deadline set by a system (or a participating credit institution) for the acceptance of payment instructions for a given settlement cycle.

Debit card: a card enabling its holders to make purchases and/or withdraw cash and have these transactions directly and immediately charged to their accounts, whether these are held with the card issuer or not.

Direct debit: a payment instrument for the debiting of a payer’s payment account whereby a payment transaction is initiated by the payee on the basis of authorisation given by the payer. See also mandate.

EMV: an acronym describing the set of specifications developed by the consortium EMVCo, which is promoting the global standardisation of electronic financial transactions – in particular the global interoperability of chip cards. “EMV” stands for “Europay, MasterCard and Visa”.
IBAN: see International Bank Account Number.

Interchange fee: a transaction fee payable between the payment service providers involved in a transaction.

International Bank Account Number (IBAN): an International Organization for Standardization (ISO) technical code that is an expanded version of the basic bank account number (BBAN). Intended for use internationally, the IBAN uniquely identifies an individual account at a specific financial institution in a particular country. The IBAN also includes the bank identifier of the financial institution servicing that account.

Mandate (for direct debit): the authorisation given by a payer to a payee (and/or the institution with which the payer’s account is held) consenting to the debiting of the payer’s account. See also direct debit.

Pan-European automated clearing house (PE-ACH): a business platform for the processing of euro payment instruments which is made up of governance rules and payment practices and supported by the necessary technical platform(s).

Payer: the party to a payment transaction issuing the payment order or agreeing to the transfer of funds to the payee.

Payment: a transfer of funds that discharges an obligation on the part of a payer vis-à-vis a payee.

Payment card: see card.

Payment instruction: an instruction sent by a payer or a payee to a payment service provider requesting the execution of a payment transaction.

Payment instrument: a tool or a set of procedures enabling the transfer of funds from a payer to a payee.

Payment scheme: a set of interbank rules, practices and standards necessary for the functioning of payment services.

Payment system: a set of instruments, banking procedures and interbank funds transfer systems which facilitate the circulation of money in a country or currency area.

PE-ACH: see pan-European automated clearing house.

Personal identification number (PIN): a personal and confidential numerical code which the user of a payment instrument may need to use in order to verify his/her identity. In electronic transactions, this is seen as the equivalent of a signature.

PIN: see personal identification number.

Point-of-sale (POS) terminal: a device allowing the use of payment cards at a physical (not virtual) point of sale. The payment information is captured either manually on paper
vouchers or by electronic means. See also EFTPOS terminal.

**Reachability:** a credit institution is “reachable” if it can execute a credit transfer order and/or a direct debit instruction sent by any other bank in a particular currency area.

**Refund:** in the field of direct debits, a claim made by a debtor for the reimbursement of debits effected from its account (with or without a specific reason being indicated by that debtor).

**Refusal:** in the field of direct debits, an instruction issued by a debtor prior to settlement, for whatever reason, to the effect that the debtor bank should not make a direct debit payment.

**Reject:** in the field of payments, a payment transaction whose normal execution is prevented by the payment service provider of either the payer or the payee prior to settlement.

**Retail payment system:** a funds transfer system which typically handles a large volume of payments of relatively low value in forms such as cheques, credit transfers and direct debits.

**Retail payment:** a non-time-critical payment of relatively low value. These payments are typically made outside of the financial markets and are both initiated by and made to individuals and non-financial institutions.

**Returns:** funds sent back by the payee to the payer following settlement of the original payment instruction. The term “return” is used in connection with both direct debits and credit transfers.

**Same-day funds:** funds which the recipient is entitled to transfer or withdraw from an account on the day of receipt. See also intraday liquidity.

**SEPA:** see Single Euro Payments Area.

**Single Euro Payments Area (SEPA):** a process initiated by European banks and supported, inter alia, by the Eurosystem and the European Commission with a view to integrating retail payment systems and transforming the euro area into a true domestic market for the payment industry.

**Standing order:** an instruction from a customer to its bank to make a regular payment of a fixed amount to a named beneficiary.

**STP:** see straight-through processing.

**Straight-through processing (STP):** the automated end-to-end processing of payment instructions.

**Value date:** the date on which it is agreed to place a payment at the disposal of the payee. The value date is also used as a point of reference for the calculation of interest on the funds held on an account.