



Ready, set...  
**SEPA!**

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# No "niche" of questions unanswered

## Editorial

Two years have passed since the famous SEPA end date took place in February 2014. It's definitely one of those events that all of us working in the world of collections and payments, both financial institutions and companies, will probably **remember as one of the most intense professional experiences of our life**.

Now there is **another end date**... apparently, a little decaffeinated, in the end wagon, which mainly affects the operations that in each SEPA country were of **"small" volume... in our case credit advances (rulebook 58) and receipts sent through rulebook 32**.

This expertise and the challenge of turning regulations into an opportunity for improvement will definitely be a great help to use right now, because behind this "niche" regulation **come more changes** such as the Payment Services Directive (PSD2) revision, which will play **an important role over the next few years in the evolution of collections and payments in Europe**.

This edition of the bulletin "Ready, set... SEPA!" is dedicated to provide information on the **implications of this new end date** and to clarify the **most frequent questions** currently being asked.

## What is SEPA?

SEPA (Single Euro Payments Area) is an area in which consumers and businesses can make **collections and payments, within and outside national borders, under the same basic conditions and with the same rights and obligations, regardless of where they are.**

SEPA is made up of 28 European Union Member States together with Iceland, Liechtenstein, Norway, San Marino, Switzerland and Monaco.

Following the adoption of the euro as a single currency, SEPA offers a step forward in European economic and monetary integration.

## A brief overview...

### Legal framework of SEPA

To make the SEPA project possible, a **common legal framework** had to be defined for all Member States, which resulted in the **Payment Services Directive** (PSD). The transposition of this European directive into Spanish legislation is the **Payment Services Law** (16/2009), which came into force in December 2009.

Furthermore, **Regulation 260/2012\*** of March 2012 established a migration deadline or **end date: February 1, 2014**. Following this date, the **use of SEPA payment instruments is mandatory**, replacing domestic instruments: credit transfers and direct debits. This obligation affected both companies and financial institutions, who had to make changes to their systems, processes, etc. to be able to migrate operations within the deadlines set by the regulation.

\*Regulation (EU) No. 260/2012 of the European Parliament and of the Council establishing the mandatory use of SEPA collections/payments schemes.

### SEPA instruments

The payment instruments included in SEPA are the following:

- **Transfers**
- **Direct debits**
- **Card payments**

made in Euros. Therefore, transactions in other currencies from the European Economic Area (Pound Sterling, Swedish Krona,...) are not included in the scope of SEPA.

### Links of interest...

- <http://www.sepaesp.es/herramienta/conversion.htm>  
CCC to IBAN converter and BIC generator (website conversion tool)
- <http://www.europeanpaymentscouncil.eu/>  
European Payments Council
- <http://www.sepaesp.es/>  
Spanish SEPA website
- <https://www.iberpay.es/Secciones/02SNCE/Paginas/Participantes/Entidades.aspx>  
Register of participants in the Spanish Clearing House (Iberpay)
- [http://epc.cbnet.info/content/adherence\\_database/](http://epc.cbnet.info/content/adherence_database/)  
Registers of participants in SEPA schemes

**2016  
end  
date**



The End Date Regulation sets a waiver, until **1st February 2016**, for **the migration of niche products to SEPA**. Those are national instruments with specific functionalities representing less than 10% of credit transfer or direct debit transactions.

**In Spain, credit advances (C58) and direct debits drawn under rulebook 32, including paper ones**, were declared niche products. As a result, those instruments have to be replaced by SEPA direct debits as of February 1, 2016, being the migration mandatory.

The End Date Regulation also establishes 1 February 2016 as the end date for other exemptions in SEPA transactions within the European Economic Area (EEA):

## XML

The use of **ISO 20022 XML formats in SEPA collections and payments files in the customer/bank relationship** has been mandatory since February 1, 2014. However, each State could set a second deadline for this point. In Spain, this obligation to use XML in companies was postponed **until February 1, 2016**.

Microenterprises and consumers are exempt from this obligation. For SEPA purposes, microenterprises are considered to be those with less than 10 employees and a turnover or balance sheet that does not exceed 2 million euros.

## IBAN

Since February 1, 2014, it has been mandatory to use the IBAN as an account ID, replacing, in the case of Spain, the Customer Account Code, or Código de Cuenta Cliente (CCC). Nevertheless, the Regulation allows financial institutions to provide conversion services to IBAN until **February 2016**. As a result, after this date **account information must be given in IBAN format in SEPA transactions**.

## BIC

The issuer must send the BIC in SEPA collections and payments up to:

- February 2014 ➔ for national transactions
- **February 2016 ➔ for cross-border transactions**

Therefore, **from February 1, 2016, the BIC won't need to be informed** for these types of transactions. In SEPA direct debit mandates, the BIC ceases to be mandatory and must only be given in the case of SEPA transactions outside the EEA (e.g., Switzerland, Monaco, ...).

**BBVA is pleased to assist you and advise you on this period of change**

### 1. Are microenterprises affected by SEPA?

The **mandatory migration to SEPA instruments also affects microenterprises**. These, like consumers, **are only exempt from using the XML format**, and can use the corresponding plain text formats when issuing SEPA file transactions.

### 2. Do rulebook 32 operations need to be migrated to SEPA products?

Rulebook 32 direct debits will disappear on February 1, 2016 and must be migrated to SEPA instruments. In this respect, and in preparation for the migration, **BBVA no longer admits direct debits in AEB32 format with due dates after February 1, 2016**.

Other financial paper instruments based on rulebook 32 (bank bills, promissory notes, ...) are not affected by SEPA.

### 3. What is the end date for SEPA countries whose currency is not the euro?

The deadline or end date for migration in this case is **October 31, 2016**. This is the case, for example, for the United Kingdom.



### 4. What will happen if I'm not ready to send SEPA transactions on February 1?

February 1, 2016 is the end date for exemptions in SEPA, and the most relevant are the mandatory migration of credit advances and direct debits drawn under rulebook 32, including paper ones, to SEPA direct debits (Core/COR1 o B2B). Therefore, **from that date, the Spanish Clearing House will not process those domestic collection instruments with a SEPA equivalent**.

If you foresee to have difficulties in starting to operate with SEPA direct debits or mandatory formats in time, we recommend you contact your bank to check if they can offer you a solution.

As a support in this change process, and if you don't complete your migration in time, **BBVA will adapt your credit advances C58 files** or those in plain text format before their execution to ensure that you can continue to operate while you complete your migration project.

### 5. Do I also need to use IBAN as account ID in domestic transactions?

**Yes**, in this case you must also use the IBAN to identify the bank account. The IBAN, or International Bank Account Number, is the **European standard** to harmonize the **univocal identification of accounts** in all countries. In Spain it is formed by 24 characters: the first two identify the country code (ES), the following two are the check digits and the remaining 20 correspond to the Spanish Customer Account Code, or CCC.

# FAQs: migrating to SEPA direct debits

## 6. What advantage do SEPA COR1 direct debits have? What format do they have?

COR1 is an **optional service** that allows issuers to submit SEPA Core direct debits to their banks up to one day before their due date (two days before in cross-border direct debits). There is also a single deadline that does not distinguish between one-off, recurring, first direct debits, ... which simplifies the process.

The **format** used to issue COR1 direct debits is the **SEPA Core direct debits format**, including the following indication:

- If you use XML format: **COR1** on the label <Cd> (CORE for standard presentation timelines)
- If you use the plain text format of the AEB 19.14: **19154** in the rulebook version field (remember the standard is 19143)

Since it is an optional service for banks, both the debtor and creditor banks must be reachable for it to work and the direct debits to be collected.

## 7. Can I issue SEPA COR1 direct debits to any debtor bank?

All banks that operate via the Spanish Clearing House (Iberpay) accept SEPA COR1 direct debits, meaning that the possibility of using this short submission cycle is guaranteed in **domestic direct debits**.

In the case of **cross-border SEPA direct debits** with destination banks not operating via Iberpay, you need to check that the debtor bank offers this optional service.

Therefore, before beginning this operation, we recommend checking that both your bank and that of the debtor are adhered.

(2015 nov.)

**Banks operating through EBA and issuing COR1 direct debits**



## 8. What SDD scheme should I use to send payments to businesses?

If the debtor is a company, the issuer can use both the **Core/COR1 and the B2B direct debit schemes**.

Remember that with **SEPA B2B direct debits, the debtor renounces explicitly his refund right (eight weeks) for authorized transactions**. Therefore, the creditor has a greater certainty of payment completion. Furthermore, B2B direct debits can be issued up to one day before their due date (EBA destination direct debits require an extra day).

## 9. Can I issue B2B direct debits to the self-employed?

**Yes**, although the self-employed are natural persons, they **do operate with a commercial or business purpose**.

Therefore they do not have a consumer status.

# FAQs: migrating to SEPA direct debits

## 10. Can I use the same creditor ID with different financial institutions?

Yes, to do so, you have to define the same business code for all your creditor banks. **Our recommendation is to use the same creditor ID to standardize the mandates.**

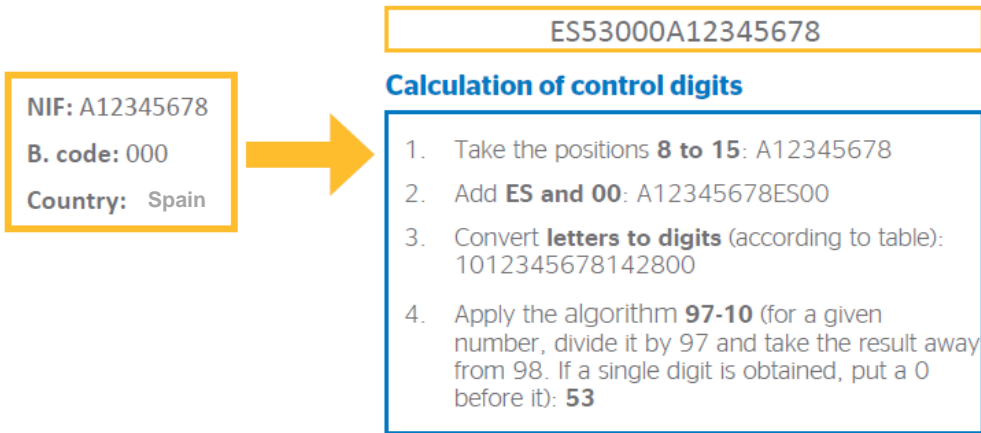
Take into account that the creditor ID for SEPA direct debits is formed in the following way:

**ES ZZ XXX AAAAAAAAAA** where:

- ES: Spain
- ZZ: Check digits
- XXX: Business code
- AAAAAAAAA: NIF [Tax ID No.]

The check digits are calculated based on the NIF (tax ID No.) by using the mod. 97-10 algorithm. Find more information in the SDD rulebooks.

For example:



## BBVA recommends...

so as to avoid rejections of SEPA direct debits:

- **Unique mandate reference:** it identifies SEPA direct debits associated to a specific mandate. Therefore, as a creditor, you cannot use the same unique mandate reference for different debtors or debit accounts.
- **Direct debit reference:** relevant information which identifies each collection in a unique way. Creditor's can use a reference only once for SDD that have been processed correctly.

# FAQs: financing SEPA direct debits

## 11. Is there a specific format for financed SEPA direct debits?

No, to issue financed SEPA Core/COR1 or B2B direct debits **you need to use the SEPA direct debit formats**, including the financing indication on the remittance header:

- **If you use XML format:** include the prefix **FSDD** in positions 1-4 of the message ID (<MsgId>)
- **If you use plain text format:** include the prefix **PREFSDD** in the first positions of the file ID

This indicator has been agreed as a standard by the banking associations in Spain for XML format.



## 12. Can the same remittance contain financed and non-financed SEPA direct debits?

No, the financing indication is informed on the remittance header in SEPA direct debit formats. Therefore, **SEPA direct debits and financed SEPA direct debits have to be issued in different remittances**.

## 14. Can I issue financed SEPA direct debits to an account in a non-euro country?

Yes, **provided that it is a SEPA country**. SEPA includes countries that don't belong to the Eurozone (for example, United Kingdom, Norway...). Therefore, SEPA direct debits and financed SEPA direct debits can be sent in Euros to any of these countries.

## 13. Is it possible to discount cross-border direct debits?

One advantage of SEPA direct debits that export companies should bear in mind is the **ability to discount cross-border transactions** within SEPA countries.

Furthermore, all the bank rulebooks on SEPA credit transfers and SEPA direct debits allow domestic and cross-border transactions to be sent **in the same file**.

## 15. Can SEPA B2B direct debits be financed?

**Both Core/COR1 direct debits and B2B direct debits may be financed**. To do so, use the corresponding format and add the financing indication in the positions defined in the Spanish banking rulebooks.

### SEPA direct debits / Relevant aspects



## FAQs: presentation/refund timelines

### 16. What is the presentation deadline for financed SEPA direct debits?

Funded SEPA direct debits have **the same presentation timelines as SEPA direct debits**. They are as follows:

#### Time cycle comparison

	IBERPAY (domestic direct debits)	EBA (cross-border and domestic direct debits to institutions not operating via Iberpay)
<b>Core</b>	<b>FRST (first) D-5</b> <b>RCUR (next) D-2</b>	<b>FRST (first) D-6</b> <b>RCUR (next) D-3</b>
<b>COR1</b>	<b>D-1</b>	<b>D-2</b>
<b>B2B</b>	<b>D-1</b>	<b>D-2</b>

BBVA offers a due date recalculation service to avoid rejections, which automatically repairs the collection date of the remittance if it has a SDD order presented outside the stipulated deadline.

### 17. After February 1, 2016, how do I receive refunds of credit advances issued before this date?

Once you have migrated your direct debit operations to SEPA, you will receive the following separate files:

- Refunds of credit advances rulebook 58
- Refunds of rulebook 32 bills
- SEPA direct debits rejections and refunds, in the new formats

### 18. What is the difference between refund deadlines for credit advances and for SEPA direct debits?

The refund deadlines set forth by the Ley de Servicios de Pago (**Payment Services Law**, in effect since 2009) are:

	Credit advances	SEPA direct debits	
	C58	Core	B2B
<b>Authorised transactions</b>	<b>8 weeks</b> (58 calendar days)  (not "no-questions-asked" refund right from the 5th day onwards)	<b>8 weeks</b> (47 working days)	<b>No right of refund</b>  (2 days for refunds)
<b>Unauthorised transactions*</b>	<b>13 months</b> (400 calendar days)  The debtor bank has 30 calendar days to reject the refund, by submitting a signed and valid mandate	<b>13 months</b> (440 calendar days)	

In Spain, refund requests of authorized credit advance transactions are left at an acceptance process. This process doesn't exist for SEPA Core direct debits; they are directly charged to the issuer's account.

(\*): Direct debit order with no mandate signed by the debtor



### 19. If I have the debtor's consent to collect credit advances, do I need to sign a new mandate with the debtor?

If the creditor migrates to SDD Core, it is not necessary to request a new consent from the debtor, as **the law gives validity to existing mandates in legacy schemes**; that is, to the payee authorizations prior to the SEPA migration regulation. If that is the case, follow the **migration rules** defined by the AEB:

REQUIRED SDD ATTRIBUTE	DOMICILIATION ORDER	MIGRATION RULE
Unique mandate reference	Reference code	The current reference code is maintained, filling in with blanks to the right up to 35 positions (plain text format) and converting to SEPA accepted characters
Debtor's IBAN	Debtor's CCC	Converter available at <a href="http://www.sepaesp.es">www.sepaesp.es</a>
Creditor's Identifier	NIF, business code	The creditor's ID is 16 characters long: <ul style="list-style-type: none"> <li>• ISO Country Code (ES for Spain)</li> <li>• Two check digits</li> <li>• Business code</li> <li>• NIF (national identifier)</li> </ul>
Type of payment	-	Assumption for all migrated transactions to be "recurrent" (RCUR)
Date of signature	-	Assumption for all migrated mandates: 31-10-2009

Once you have migrated, the new mandates must be adapted to SEPA.

**In the case of B2B SDD**, since it is a new scheme in which the debtor explicitly renounces his refund right for authorized transactions, **the creditor must collect new mandates from his debtors**. These must be authorized by the debtor bank before the first direct debit is charged to the account. This guarantees that the mandate exists and that the debtor has understood the SDD B2B process.

### 20. What is the risk of not having a physical signed mandate?

As it happened with payee authorizations for credit advances, the mandate is the only document accepted in the interbank circuit as proof of authorization of an operation. If this document doesn't exist, **the creditor bank will not be able to reject the debtor's refund request** of a SDD via the interbank system after the eighth week (reason: "unauthorized transaction").



### 21. C58 credit advances may not be domiciled. Do SEPA direct debits also have this option?

From February 2016, customers must migrate their credit advances to **SEPA direct debits** (Core/COR1 or B2B) and these **must be domiciled**. That is, consent must be given by the debtor to the creditor before collecting direct debits. Therefore, the debtor IBAN must be informed on the direct debit.

### 22. What information should be included in the pre-notification?

The pre-notification is a different document to the mandate, in which the creditor notifies the debtor **the amount and due date** of the direct debit. Unlike the mandate, it does not need to be a separate document; for example, an invoice can be a valid pre-notification document. **Notification must be given 14 days in advance, unless otherwise agreed between the parties**. In the case of recurring direct debits with known amounts and due dates, a single pre-notification with information of all future collections can be given.

In any case, take into account that the pre-notification **is not part of the interbank scope**.

**Did you know that...?**

**on 20 November 2016, the SEPA direct debit scheme will be simplified?**

- There will be just **one presentation date for SEPA Core direct debits, regardless of their type** (first, recurrent, one-off, etc.), and this is shorter. Domestic Core direct debits or those for banks who operate via Iberpay can be presented up to one day before the due date. Cross-border direct debits or those for banks that operate via EBA will require an additional day (D-2).
- **It will no longer be necessary to specify the first SEPA direct debit collection with the sequence type first (FRST)** before sending recurrent ones (RCUR). This is especially relevant if you send SDD to other countries, given that it is now common practice for foreign debtor banks to reject them if the sequence type isn't respected.

# BBVA

For more information



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