EPC Guidance on the use of the future ISO Standard for the 'Structured Creditor Reference'

(Approved by the 24 June 2008 Plenary)

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1. SUBJECT HANDLED IN THIS DOCUMENT

The objective of this document is to provide EPC guidance for the use in the SEPA SCT and SDD Schemes of the ISO standard under development (reference 11649) for a 'Structured creditor reference to the remittance information', referred to in this document as 'Structured Creditor Reference' (RF).

2. ANALYSIS

The ISO standard under development has the objective to provide a structured creditor reference which allows regular billing parties to identify invoices and to reconcile them with the related payments made by credit transfer or direct debit.

The standard defines this Structured Creditor Reference as a reference unique and meaningful for the beneficiary, identifying the underlying invoice and all its related information.

In the SEPA Credit Transfer Scheme (SCT) the RF is to be used in the following life cycle:

- issued by the invoicing party – the beneficiary
- sent directly to the payer –the originator– as part of the invoice
- included by the originator in the credit transfer instruction sent to the originator bank
- checked by the originator bank or (ideally) by the originator's ERP system at the point of capture of the payment instruction, for the correctness of the check digits in the RF
- forwarded by the originator bank to the beneficiary bank
- forwarded by the beneficiary bank to the beneficiary
- reconciled by the beneficiary with the outstanding receivable identified through the RF

In the SEPA Direct Debit Schemes (SDD) the RF is to be used in the following life cycle:

- issued by the invoicing party – the creditor
- sent to the creditor bank included in the instruction for collection
- forwarded by the creditor bank to the bank of the payer - the debtor bank – included in the instruction for collection

- sent back by the debtor bank to the creditor bank in case of reject, return or refund of the collection
- forwarded by the creditor bank to the creditor included in the message for reject, return or refund
- reconciled by the creditor with the outstanding receivable identified through the RF

This candidate standard has the potential to incorporate existing national standards for such references existing today in several SEPA countries, by offering features as variable length, unique overall structure, content determined by the beneficiary, etc.

Experiences with such references have demonstrated that these can be very efficient, allowing a high percentage of STP reconciliation by companies between the outstanding receivables and the related payments.

The use of electronic channels by bank customers facilitates the capturing of the RF and discharges the originator bank of this work.

Being a Structured Creditor Reference, the RF contains check digits allowing validation of its plausibility. Consequently, this avoids the transmission of references which have become inconsistent because of typing errors.

3. THE STRUCTURED CREDITOR REFERENCE AND THE SEPA SCHEMES

3.1. SCT Scheme

3.1.1. Current Rulebook

The current SCT Rulebook provides the obligation for the Originator Bank to carry the structured remittance information, when provided by the originator, unaltered from the initiating customer to the receiving customer.

The SCT Scheme Rulebook makes several references to the use of 'structured remittance information':

- Section 1.1: "Automated reconciliation of invoices will become much simpler as banks commit themselves to use the Scheme to pass remittance reference information unchanged throughout the banking system on behalf of the originating Customer and to the intended payment Beneficiary. This information may be structured or unstructured at the discretion of the person making the transfer."
- Section 1.7: "The Scheme delivers the end-to-end carrying of customer remittance data on either a structured and unstructured basis."
- Section 2.7: "Communities of banks serving Customers within SEPA will be able to implant data conventions for structured remittance data and /or longer remittance data references."

- Section 4.6.2: "AT-05 Remittance Information: A maximum of 140 characters for unstructured Remittance Information
OR
structured Remittance Information of a maximum of 140 characters according to detailed rules to be defined"
- The same information is repeated in the same way in other places.

3.1.2. Impact of adoption of RF

RF brings an additional obligation for the Originator Bank to identify the use by the Originator of the structured creditor reference by recognizing the "RF" code in the beginning of a reference, which possibly could be received by the bank of the originator even on paper.

There is no obligation in the Scheme for Participants to check the correctness of the Structured Creditor Reference delivered by the customers by recalculation of the check digits.

When provided by the originator, the Structured Creditor Reference should be transported in the element "Creditor Reference Information" of the "structured remittance information".

3.2. SDD Scheme

3.2.1. Current Rulebook

In the SDD context, the Creditor, as the originator of the direct debit transaction, is at the same time the issuer and the user of such information which can not be altered by the payer.

3.2.2. Impact of adoption of RF

The conclusion is that in the SDD context, the adoption of the Structured Creditor Reference is only a matter for the Creditor. Indeed, the information travels from the Creditor back to the Creditor, without any intervention by other parties. The Creditor should use the field identified under Index 2.106 "Creditor Reference Information" in the customer-to-bank collection for storing the information.

4. EPC GUIDANCE FOR THE ADOPTION OF RF

4.1. Major principles

EPC recognises that the "Structured creditor reference to remittance information" offers the potential for SEPA wide application for automatic reconciliation between invoices and related payments.

Once available the ISO standard will contribute to the improvement of the automated reconciliation at the beneficiary's level.

Existing national or local creditor references are not forced by this to be withdrawn from their market. Their migration to the new ISO standard is a decision of the owners and users of such a standard. However EPC believes that the ISO standard offers a good approach for the creation of a SEPA-wide application.

Adoption of the RF is a matter for originators of large volumes of invoices, and for their payers to use the RF by adding it to the Credit Transfer Instructions sent to the Originator Banks.

4.2. Detailed guidance for the use of the Structured Creditor Reference

4.2.1. SCT Scheme

The following guidance is issued by EPC regarding the adoption of the Structured Creditor Reference:

- The Scheme does not create new obligations for participants as a result of the adoption by the market of the RF.
- The Structured Creditor Reference must be transported to the beneficiary customer in the Structured Remittance Information.
- When a Structured Creditor Reference is provided by the originator to the originator bank, it is recommended to check the correctness of the Structured Creditor Reference at the point of capture.

The Implementation Guidelines need to be brought in line with this guidance, in order to include the use of the new ISO standard.

More specifically, the Implementation Guidelines should mention the following:

RemittanceInformation

Structured

CreditorReferenceInformation

CreditorReference

4.2.2. SDD Scheme

The use of the Structured Creditor Reference being transparent for the Scheme, no specific guidance needs to be issued.

5. CONCLUSIONS

Approval of this guidance document by the June 2008 Plenary will allow early movers to start implementation as soon as the ISO standard is approved, which might be expected by the end of 2008. The new harmonised Customer To Bank XML File Formats could already include the related specification.