February 26th, 2013

Countdown to SEPA — Less than one year to go

Today’s Speakers:

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EMEA Payments Market Manager, Citi Transaction Services

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Time to Act

Get ready for SEPA

3 4 0 days

- Euro zone end date 1\textsuperscript{st} February 2014
  - Organisations need to act to now to migrate their flows
  - May need to ensure full migration in 2013 due to year end technical freezes

- SEPA can be leveraged to re-engineer European cash management processes

- SEPA Direct Debits (SDD) requires specific planning and analysis
  - Choosing scheme and mandate management strategy is critical
Today’s Agenda

- SEPA Market update
- Form a SEPA Migration plan
- Ensure SEPA Direct Debit Focus
- Ensuring Readiness
- Want to know more
- Q&A
SEPA Market Update
Single Euro Payments Area (SEPA)

SEPA is the payments integration initiative of the European Union for simplification and harmonization of ACH and Direct Debits in EUR, removing the cross border barriers.

- 32 Countries
- Euro currency only
- Euro ACH and Direct Debits within this geographical area (Payments to/from SEPA countries not impacted)
- Single Legal Framework
- Standardised Schemes on basis of ISO 20022 XML
- BIC & IBAN required

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### 32 SEPA Countries

<table>
<thead>
<tr>
<th>Austria</th>
<th>France</th>
<th>Liechtenstein</th>
<th>Portugal</th>
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</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Germany</td>
<td>Lithuania</td>
<td>Romania</td>
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<tr>
<td>Bulgaria</td>
<td>Greece</td>
<td>Luxembourg</td>
<td>Slovakia</td>
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<tr>
<td>Cyprus</td>
<td>Hungary</td>
<td>Malta</td>
<td>Slovenia</td>
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<tr>
<td>Czech Republic</td>
<td>Iceland</td>
<td>Monaco</td>
<td>Spain</td>
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<tr>
<td>Denmark</td>
<td>Ireland</td>
<td>Netherlands</td>
<td>Sweden</td>
</tr>
<tr>
<td>Estonia</td>
<td>Italy</td>
<td>Norway</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Finland</td>
<td>Latvia</td>
<td>Poland</td>
<td>UK</td>
</tr>
</tbody>
</table>

*Highlight denotes EUR zone countries*
**SEPA Market Development Timeline**

- **Jan:** SCT launch
- **Feb:** SEPA regulation passed in European Parliament – end dates set
- **Feb/ Mar:** Niche scheme announcement expected
- **Feb:** Migration end-date (SCT and SDD in euro Member States)
- **Nov:** SDD launch
- **Feb:** Migration end-date (niche schemes)
- **Oct:** Migration end-date (SCT and SDD in non-euro Member States)

- **SCT** – SEPA Credit Transfer
- **SDD** – SEPA direct debit
Adoption of SEPA Direct Debit

SEPA Credit Transfer Scheme

- Steady increase in adoption, positive developments of countries adopting ‘en masse’ – e.g. Finland and Luxembourg.

- Payment flows of the majority of consumers, countries and organisational tax/payroll have remained within the remit of legacy ACH schemes.

SEPA Direct Debit Schemes

- Core Scheme: Aimed primarily at C2B Flows (also B2B flows). 3876 financial institutions signed up Core Scheme

- Business to Business Scheme: Dedicated to B2B Flows. 3415 financial institutions have signed up B2B Scheme
SEPA Supports Several Corporate Treasury Objectives

- Liquidity Optimisation
  - Cash Flow Forecasting
  - Interest Optimisation
- Centralisation
  - Fewer Bank Accounts
  - Shared Services
  - Centralised Treasury
- Efficiency
  - Ease of Reconciliation
  - STP Payment Processing
  - Reduced Bank Fees

Corporate Objectives

SEPA

- Single Point of SEPA Access
- Single Bank Euro Solution Possible
- Simpler Account Structures
- Financial Supply Integration
- Extended / non-Truncated Remittance Data
- Industry Standard Messages
- Cheap, efficient payments
- Harmonised legal framework

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SEPA Transition Can Be Lighter or Complex

Organisations can choose to leverage SEPA as an opportunity to reengineer existing cash management structures in order to reap longer term centralised and standardised benefits. Alternatively, a lighter approach can be taken.

**Full cash management re-engineering**

- Centralise AP/AR operations
- Rationalise account structures to leverage SEPA features
- Evaluate implementing ISO 20022 XML
- Consolidate banking relationships
- Obtain BIC/IBAN information
- ERP set up new payment types and fields for SCT/SDD
- Set up in-house or outsource Mandate Management processing
- Bank connectivity and file format

**No cash management re-engineering**

- Continue to operate from existing account and process structures
- Obtain BIC/IBAN information
- ERP set up new with payment types and fields for SCT/SDD
- Set up in-house or outsource Mandate Management processing
- Bank connectivity and file format

Looking to re-engineer receivables structure and processes, in combination with SEPA adoption?
POLL QUESTION 1

What is your organisation’s SEPA project status?

a) We have not started planning for SEPA yet
b) We have started implementing, however not sure whether we will be able to complete by 2014
c) We have started implementing and we are on track to complete by 2014
d) We are fully SEPA compliant
e) We are not clear on what needs to be done
Form a SEPA Migration Plan

Assess SEPA impact to your organisation
Align with your overall Cash Management Strategy
Form a SEPA project team
Develop a Migration Plan
Transition

SEPA Migration Checklist

- Discuss SEPA with your bank partner
- Assess Euro ACH and direct debit flows
- Assess account usage
- Decide migration strategy
- Align SEPA project with other projects

Organisational Considerations

- Bank relationship and connectivity
- Company presence
- Payment database and volumes
- Business activities
- Communication
- Urgent and non-urgent payment requirements
- ERP and technical set-up
- Account structures
- Operational structure
# A Closer Look at SEPA Credit Transfers

<table>
<thead>
<tr>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment Types</strong></td>
</tr>
<tr>
<td>• Many organisations already adopted for Vendor Payments, Payroll adoption accelerating since Jan 2012. Tax payments have not been widely adopted to date.</td>
</tr>
<tr>
<td><strong>Limits</strong></td>
</tr>
<tr>
<td>• No scheme or transactions value limit (effective €1billion clearing limit)</td>
</tr>
<tr>
<td>• However Bank of Spain has imposed a €50,000 limit on resident to non-resident transactions within Spain.</td>
</tr>
<tr>
<td><strong>Deduction</strong></td>
</tr>
<tr>
<td>• Payments must be made in full, with any charges being deducted separately to the principal amount. Deductions allowed from the principal amount if agreed between the beneficiary and the beneficiary bank.</td>
</tr>
<tr>
<td><strong>Value Dating Cycles</strong></td>
</tr>
<tr>
<td>• From January 2012 maximum one day time between debit on payer account and credit on payee account – per the Payment Service Directive (D+1).</td>
</tr>
<tr>
<td><strong>Remittance Details</strong></td>
</tr>
<tr>
<td>• 140 characters of non-truncated payment remittance information are facilitated.</td>
</tr>
<tr>
<td><strong>Central Bank Reporting</strong></td>
</tr>
<tr>
<td>• Central Bank Reporting may still apply to transactions over defined thresholds in some countries, as they do for domestic transactions.</td>
</tr>
<tr>
<td>• CBR, via banks, is to be removed by 1st of February 2016.</td>
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Choosing the Suitable SEPA Direct Debit Scheme

SEPA has two Direct Debit schemes, Core and B2B, each with specific characteristics to consider. Companies can collect through either scheme, across the Area, with a single SEPA Originator ID.

<table>
<thead>
<tr>
<th>1. The Basics</th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mandatory DD scheme for</td>
<td>C2B and/or B2B collections</td>
<td>• Optional DD scheme solely for B2B collections</td>
</tr>
<tr>
<td>• All banks reachable for domestic DD schemes in EUR zone reachable for Core.</td>
<td>• Reachability ~80-85% of Core.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Revocability / Claims</th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Debtor claim back funds collected up to 8 weeks</td>
<td>• No entitlement to obtain refund of an authorised transaction</td>
<td></td>
</tr>
<tr>
<td>• Debtor can claim back funds without a mandate up to 13 months</td>
<td>• Debtor can claim back funds collected up to 13 months, only if done without a mandate</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Value Dating Cycles</th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• D-5 for first collection / one-off collections</td>
<td>• D-1 for first collection / one-off collections</td>
<td></td>
</tr>
<tr>
<td>• D-2 after the first collection</td>
<td>• D-1 after the first collection</td>
<td></td>
</tr>
<tr>
<td>• D+5 for returns</td>
<td>• D+2 for returns</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Mandates rules (common)</th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mandates are the responsibility of the creditor who must hold mandate signed by debtor.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Mandates need to carry a Unique Mandate Reference number</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Mandates rules (specific)</th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Legacy Mandates can migrate to the SEPA DD Core scheme.</td>
<td>• New mandates are required for B2B.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Debtor must lodge mandate with the debtor bank or debtor bank will refuse DD.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Common Attributes</th>
<th>Core</th>
<th>B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Unique Identifier (CSID) for each legal entity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 4 Collection types and 14 days notice must be provided to the debtor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• New fields including Signing date, Scheme, collection type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Decide on Core or B2B scheme

**Core Scheme**
- Consumer and Business collections
- Longer refund period for debtors
- Creditor mandate responsibilities
- Existing mandate valid
- D-2 Standard Execution Cycle

**B2B Scheme**
- Business collections
- Irrevocability of collection
- Creditor & Debtor mandate responsibilities
- New mandates required
- D-1 standard execution cycle

**Key Questions:**
- Customer base?
- Attractiveness of irrevocable collection?
- Desire to open mandate/commercial discussions with customers?
- Ability to meet new mandate responsibilities?
- Ability to incorporate technical changes required?
Form a SEPA Migration Plan

SEPA Migration Checklist

- Decide on the direct debit scheme: Core or B2B
- Understand country direct debit mandate position
- Ensure Direct Debit mandate management readiness (evaluate outsourcing as an option)
- Form a SEPA project team and communication strategy for key stakeholders
- Ensure alignment with ERP/technology rollout strategy
- Ensure BIC/IBAN readiness and ongoing collection of information
- Ensure system readiness
- Be aware of current country SEPA status
- Implement and test in phases
- Be aware of niche scheme announcement (early 2013)
Ensure Focus on SEPA Direct Debit Effort

What are your options?
## SEPA Direct Debit: What You Need To Do

### Key components for review

- Send mandates out for signature
- Upload Mandate Related Information
- Convert legacy mandates into SDD compliant
- BIC/IBAN conversion & validation
- Maintain a mandate database
- Store mandates
- Notify customers they are being migrated to SDD
- Use correct timings for collections
- Create collections in SEPA XML
- R-messages
- Comply with SEPA rule book(s)

*Variations by country still exist as countries converge / harmonize across SEPA region*
## In-house Project or Outsourced Service?

### In-house Project
- Well established SEPA programme
  - Believe time is still on your side
- IT and SEPA resource and budget Available
  - Technical formats and business rules covered
- BIC / IBANs
  - Available and Validated
- Preference for Capex
- Resources to monitor SEPA rule books
- Technology “religion”

### Outsourced Service
- Late starting SEPA programme
  - Aggressive national migration plan
  - Fast track option
  - Insurance policy
- Resource and budget constraints
- Reduced Capex outlay
  - No Software Licence, hardware etc.
- BIC / IBANs required
- Opex profile
- Need access to SEPA expertise
- Technology “agnostic”
  - Want to avoid technology lock-in

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CGI SEPA Mandate Management Service

SEPA
• c15% of all SDD traffic
• Major banks & corporates
• Highly scalable technology infrastructure
• Secure

Fast implementation
• <8 weeks
• Local on-boarding Managers

Mandate migration
• Mandate scanning
• Mandate pack production
• Secure archiving
• BIC/IBAN conversion & validation

Complete package
• Fully managed service
• Transparent pricing
• Guaranteed for current & future SEPA requirements

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Ensuring Readiness
POLL QUESTION 2

What’s your highest priority regarding SEPA readiness?

a) Mandate migrations
b) Country variations
c) Technical build
d) Minimize reject / returns
e) Other
f) Combination of the above
Prepare Your Organisation

It is important to ensure internal stakeholders are engaged to cover all necessary aspects of the SEPA migration. A project managed approach is recommended.

- Investigate ERP impact and budget project
- Bank and Account structure
- Banking connectivity and format strategy
- Bank Reconciliation

- Establish a dedicated team to manage the transition and monitor activities across all impacted departments

- ERP Changes (BIC / IBAN + other fields)
- Accommodate process changes
- Mandate Management
- Potential Bank Connectivity and Format changes
- Non-ERP system changes (e.g. update to sales systems)
- Testing and production

- Ensure BIC / IBAN readiness
- New mandate responsibilities and SEPA fields
- Confirm end-end flow of payment information and reconciliation

- Awareness of SEPA changes
- Readiness (e.g. queries on mandates)

- Awareness of changes to customer processes. (e.g. new mandates)
- Collection of SEPA details ongoing (e.g. updates to mandate forms)

- Awareness of changes to refund rights under SEPA Schemes
- Potential changes to customer contracts
Want to Know More?
Other Citi SEPA Events / Activities

- Please visit our SEPA website at transactionservices.citi.com/SEPA/
- Additionally EPC have a very helpful website: www.europeanpaymentscouncil.eu

Webinars

- 14th March 2013 at 3pm GMT
  "SEPA – Practical Steps to Meet the Deadline"

Roundtable events

- Belgium, Frankfurt (Eurofinance), Madrid, Dublin and other European capitals.
- Please contact your Citi representative if you are interested in attending.
Q&A
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