

Citi's Online Academy

SEPA: What Now? What Next?

Questions & Answers

This document summarises questions that arose from the *SEPA: What Now? What Next?* webinar on Thursday 14th February 2008.

If you have any further questions or would like to receive more information on Citi's SEPA Credit Transfer service, please contact your Citi representative.

1. What is the impact of SEPA transfers on MT940 reporting? How to auto reconcile the incoming payments? Can the senders IBAN/account number be reported on the MT940?

A SEPA Credit Transfer can contain additional data fields not available in other payment instruments today. This additional information will be included in client MT940 statements using specific codewords, enabling clients to identify additional information and facilitate automated reconciliation.

A detailed overview of how SEPA Credit Transfers will appear in your MT940 statements is available from your EB Support team or Citi representative.

It is not possible to include the sender's IBAN details in the MT940. As with existing payment types, certain local regulatory requirements prevent banks from sharing senders' details with beneficiaries. This will not change as a result of SEPA.

2. What impact will SEPA have on cross border charges and cut off times

Due to European legislation (EU Regulation on Cross Border Payments in Euro), banks must charge the same pricing for SEPA Credit Transfers to beneficiaries anywhere in SEPA. This ensures that clients are not unduly penalised for sending payments to a beneficiary in another Member State. This legislation applies to payments under EUR 50,000 in value, however Citi applies this principle to SEPA Credit Transfers of any value.

As SEPA Credit Transfer is a new payment instrument, a new and separate cut-off time is applied. Citi aims to offer highly competitive cut-off times. Our SEPA Credit Transfer cut-off time is 15h00 UK for CitiDirect payments and 14h00 for file-based

payments. Receipt by Citi of SEPA Credit Transfers prior to these cut-off times will ensure transactions are settled overnight and delivered to the beneficiary bank on the following morning.

3. When will Central Bank Reporting requirements be abandoned by countries when making SEPA Credit Transfer

Central Bank Reporting (CBR) practices and limits vary across Europe, placing a burden on many corporates. In recognising that SEPA creates a single payments market, the European authorities are actively seeking to simplify CBR requirements. In the short term we expect the European Commission to support the harmonisation of CBR limits to EUR 50,000. In the longer-term we hope to see the requirements simplified or lifted for intra-EU/EEA payments.

Until then, CBR would apply to SEPA Credit Transfers in the same way as for other payment types today.

4. How can I reduce cost by making use of SEPA to make cross border payments

Historically, the only means of transferring EUR across a national border was as an expensive, same-day Funds Transfer, regardless of whether the payment was actually urgent. SEPA Credit Transfer offers the opportunity to move EUR across national borders for a price more similar to a national ACH payment. If a client has a significant volume of non-urgent cross-border payments, then they should consider moving these to SEPA Credit Transfer to take advantage of the lower transaction fee.

5. Are all Citi applications prepared to accept SEPA Credit Transfers?

Citi has invested considerably to ensure that our client delivery channels, processing systems and general ledger systems were ready to handle SEPA Credit Transfers from the launch date. The SEPA Credit Transfer service is available through our CitiDirect® Online Banking and Citibank File Xchange (formally CFS) platforms.

6. How can a customer input SEPA Credit Transfers?

Customers with access to CitiDirect® Online Banking can input individual SEPA Credit Transfers. By selecting the SEPA Credit Transfer payment type, you will be presented with the input screen, enabling you to key in the mandatory/optional payment information.

7. Is there the possibility of file import into our systems (e.g. CFS or any other mass payment application)?

Yes. A key component of our SEPA preparations was the rollout of SEPA Credit Transfer as a new payment type through the CFS/CFX file-based payment channel. This enables clients to transmit files in a number of industry standard file formats. Since 28th January, SEPA Credit Transfer has been available on this platform, allowing you to submit the new payment instrument within the same file that you send to Citi today.

8. Credit transfer - Which countries have exceptions, like Italy (tax-transfer.)

SEPA Credit Transfer is an entirely new payment instrument, which is being implemented consistently across the region. In the majority of cases, national payments instruments could easily migrate to the new SEPA Credit Transfer service. In the case of 'special' local instruments, these are expected to remain for the foreseeable future, until they are either phased out of use or the SEPA schemes adapt to include this additional functionality.

9. Making CFS payments in SEPA zone and how to set up the PIUID and other entries using SAP IDOCs.

As SEPA Credit Transfer has been set up as a new payment instrument on the CFS (now CFX) channel, a new PIUID has been created. Should a client wish to implement SEPA Credit Transfer within their existing SAP iDoc file,

they will need to adopt the new PIUID as well as ensuring all other requirements of the SEPA Credit Transfer can be provided.

10. First experiences with SEPA receipts in bank statements. What has changed? Do all bank statements look the same ?

Citi's clients have been receiving SEPA Credit Transfers on their accounts since the launch of the service on 28th January 2008. Consequently, these transactions have been reported in bank statements. These entries may include new information not previously provided in previous bank statements, as the SEPA Credit Transfer instrument is designed to carry additional data attributes not available in other transaction types.

No clients have reported any issues with this new transaction type appearing in their statements. If you require further information on how the new information appears in your statements, please contact your Citi representative or EB Support Team.

11. When can CitiDirect import XML/SEPA Format files?

There are no plans for CitiDirect to be able to support files in XML format. Currently CitiDirect supported a simple flat file import capability. SEPA Credit Transfer is now available as part of this capability.

However, Citi does offer XML payment file capabilities via the Citi File Xchange (formerly CFS) platform.

12. When will the legacy systems be retired?

Initially the target date for phase-out of national payment products was December 2010. However, as the magnitude of the SEPA migration was understood, it became clear that this deadline was unrealistic.

No countries have outlined firm plans for phase-out of legacy products, although some continue to target 2010/2011. These dates and deadlines should become clearer over the next 9-12 months and countries move towards phasing out these services.

13. Is it possible to access the SEPA network from non-euro countries?

Yes. Although SEPA Credit Transfer will only support transactions denominated in euro, banks in any of the 31 SEPA countries (of which only 15 currently use euro as their national currency) can offer the service to their clients. Citi has launched the SEPA Credit Transfer service in both euro and non-euro countries within SEPA.

14. End to End STP using SEPA payments and Bank account statements

The longer-term aim of SEPA is to create end-to-end STP for payments and collections, not just for banks but also for customers.

SEPA will standardise and harmonise the payment instruments and associated information fields available to users. This is the first step, given that today's many national instruments

stand in the way of any standardisation.

However more work is required to ensure that industry-wide standard are developed on top of the new standard payment instruments. It is these corporate standards that will drive more automation of reconciliation processes.

Another key component of delivering end-to-end STP for corporates is the implementation of a common invoicing standard. The regulators view this as an essential initiative for delivering end-to-end STP, and are urging the industry to move this forward without delay.

15. The SEPA credit transfer is referred to as a "non-urgent" payment, which has up to a 3-day cycle. Does this mean that the bank will need 3 days prior warning to the transfer or that there will be a 3 day "gap" in the time that funds will leave the payers account to the time that they reach the beneficiary's account?

The entire payment cycle for SEPA Credit Transfers, must take a maximum of D+3 from initiation by the remitter to receipt of funds by the beneficiary.

Under the rules, the remitting bank effectively has 2 of these days to process the payment instruction and send to clearing. As Citi is highly automated, we do not need these full two days. Clients initiating payments right up to 14h00 GMT today will be forwarded to clearing overnight and available to

the beneficiary bank the following morning.

On the incoming side, banks have an additional day to credit the funds to their client. Citi will credit clients' accounts immediately upon receipt of the funds from the clearing.

A key aim of the regulators is to remove hidden float charging from the market if this disadvantages the customer. Hence Citi will not take float on incoming or outgoing SEPA Credit Transfers - client accounts will be debited/credited with the same value date as the payments are sent to / received from the clearing.

16. During the last SEPA webinar you have mentioned the reporting to the Central Banks in each country as a possible blocking point for SEPA deployment. Are we to be concerned by this issue, or it is just a bank's matter?

Central Bank Reporting (CBR) is required by many corporates, if they undertake payment activities that generate a CBR obligation. In certain countries, the corporate will need to undertake the reporting, or will need to understand the possible impact on their counterparty of having to perform CBR.

Therefore, prior to using SEPA, a corporate must look carefully at whether their CBR obligations might increase - e.g. by making payments into a country from outside, rather than from an account in that country.

17. When will each country join SEPA?

There is no country rollout of SEPA - this is a single project for the entire SEPA region. Banks in any of the 31 countries can join SEPA at a time of their choosing.

Country plans will only become a concern as each national market moves towards phasing out their local payment services. We expect that this component will be handled on a country-by-country level with each national community driving the decommissioning of these local services.

18. Can banks apply their own pricing or must they follow the mandated pricing?

There is no mandated pricing for SEPA - banks are free to choose how they price their own clients. The only condition proposed by the regulators is that, for payments under EUR 50,000 in value, banks

cannot charge any more for a cross-border payment than for a domestic payment of an equivalent type.

We expect to see a range of pricing for SEPA emerging in the market, which is likely to vary greatly depending on the time of client, volume of payments etc.

19. What is the CP2E file format?

This is a proprietary file format offered by Citi as part of the Citi File Xchange service. Some clients choose to adopt this format rather than an industry standard format like SAP iDoc, EDIFACT or XML. More details of this format can be provided upon request.

20. What about payments in NOK and GBP currencies?

SEPA is the Single Euro Payments Area; hence only payments in euro are

impacted. Activities in NOK, GBP or any other European currency are not impacted by SEPA and will remain as they are today.

21. In which SEPA countries does Citi not have a presence?

Citi has a presence in 22 out of the 31 SEPA countries. We do not have branches in the following SEPA countries: Cyprus, Estonia, Iceland, Latvia, Liechtenstein, Lithuania, Malta, Slovenia & Switzerland.

Clients wishing to initiate SEPA Credit Transfers to beneficiaries in these markets can do so from an account in a country where Citi does have a branch. SEPA ensures equal treatment regardless of whether the payment has been initiated in the same country or another SEPA country.

Global Transaction Services
www.transactionservices.citigroup.com

© 2008 Citibank, N.A. All rights reserved. The information and materials contained in these pages, and descriptions that appear, are subject to change. Not all products and services are available in all geographic areas. Eligibility for particular products services is subject to final determination by Citigroup and/or its affiliates. Any unauthorized use, duplication or disclosure is prohibited by law and may result in prosecution. CITI and Citi and Arc Design are registered trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world. Citibank, N.A. is incorporated with limited liability under the National Bank Act of the U.S.A. and has its principal business office at 399 Park Avenue, New York, NY 10043, U.S.A. Citibank, N.A. London branch is registered in the U.K. at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB under No. BR001018 and is authorized and regulated by the Financial Services Authority, VAT No. GB 429 6256 29. Ultimately owned by Citigroup Inc. New York, U.S.A. CLS is a registered trademark of CLS U.K. Intermediate Holdings Ltd.

GRA19302 02/08

