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Deutsche Bank

Winter 2007

INSIGHTS FROM CASH MANAGEMENT, US
TreasuryPulse

SEPA in 2008: Answers to Common Questions

The Single Euro Payments Area (SEPA) envisions a single currency within a unified European marketplace linked by an efficient, straight-through processing based infrastructure. SEPA will go live in January 2008, with the introduction of two major instruments designed to smooth pan-European cash management: a SEPA credit transfer and a SEPA direct debit. Below we answer some frequently asked questions about SEPA and its impact on corporations:

What advantages will result from euro payments harmonization for corporations?
The single payments area will have many advantages, especially for corporations with business relations in numerous European Union (EU) countries. These benefits include the potential to consolidate payment accounts in one country, improve working capital management and increase efficiencies—particularly in reconciliation processes—so that the costs of making euro payments across the EU will fall.

With harmonized formats, processing rules and regulation throughout the EU, SEPA will facilitate centralized cash management functions such as shared service centers and payment/collection factories. Also, the new direct debit, as the first pan-European collection instrument, may enable certain corporations to expand their business beyond individual local markets to the entire European region.

How should corporations prepare for SEPA?
Begin by evaluating potential rationalization opportunities related to your company's specific European set-up. At the same time, initiate an impact analysis to determine potential required changes for treasury and accounts payable/accounts receivable systems and all internal processes. Also, be sure to assess SEPA's impact on existing and other newly planned projects to avoid adding costs later.

You also need to understand the potential consequences if any of your business partners migrate to SEPA before your company does. For example, new SEPA data elements in account statements could affect you after January 1, 2008, if your business partners send you SEPA payments. As a short-term measure, nominate a SEPA resource responsible for monitoring the project's progress in order to determine the best time to migrate to the new environment.

What changes in account structure will SEPA enable?
The SEPA Payment Services Directive, new harmonized instruments, standardized formats, rules, schemes and cross-border euro settlement pricing will permit corporations to rationalize and re-engineer existing account structures within the eurozone. However, account structure changes ultimately will depend on legal, tax and regulatory considerations specific to your corporation's operating environment.

SEPA will enable most corporations to consolidate operational bank accounts into a more simplified structure. Companies will be able to maintain single-country accounts for accounts payable and receivable activities. In some cases, concentration of all euro activity into a single primary account within a single country will be possible for all activity across the eurozone.

Additionally, SEPA will allow centralized operating structures such as shared service centers (SSCs) to consolidate more activities into existing euro accounts. SSCs have been processing centralized payments for a number of years now, and with SEPA via the Pan-European Direct Debit (PEDD), this centralization opportunity will be extended to accounts receivable.

Centralized collections will provide a new streamlined structure for liquidity management and improved cash visibility across the entire eurozone, leading to better investment decisions.

What are the expected benefits of moving from individual national to pan-European infrastructures? And of new opportunities such as the PEDD?
Corporations that implement a pan-European account structure reduce costs associated with maintaining and reconciling multiple euro-denominated accounts, and can streamline and consolidate accounts payable and receivable processing. Companies will be able to make cross-border payments and collections from a single account under a standard set of rules in a cost-effective manner.

Clearing cycles will be standardized, removing some of the uncertainty surrounding the receipt of funds from multiple countries and clearing systems, creating more effective working capital management. Additionally, complex liquidity account structures using pooling and sweeping mechanisms can be simplified, allowing for improved intraday availability of liquidity and direct visibility of cash positions. What's more, companies can save money from a more rationalized account structure that reduces account maintenance, reconciliation and transaction fees.

In addition, the PEDD creates new opportunities for corporations that do not use direct debits in euro-based markets where the economics did not justify establishing local operating accounts. For corporations using direct debits in multiple euro-based markets, the PEDD will harmonize the entire euro collection process including return rules and reconciliation, while generating opportunities for increased efficiencies from account consolidation and centralization. Setting up direct debits will be much simpler and cheaper as the PEDD operates under one set of rules across the entire eurozone.

How will SEPA impact other areas such as invoicing, reconciliation, etc.?
SEPA payment and collection instruments will require the use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) and will provide a dedicated field within

the instruction specifically dedicated to transaction reference-related data. Additionally, uniform standards and codes, including those for returns, will be available for both SEPA payments and collection instruments. For companies performing purely domestic business today, invoices need only mention the account number along with the domestic bank routing number. In the new SEPA environment, invoicing will need to be adjusted to include both the IBAN and BIC for local as well as cross-border transactions.

Additionally, the transaction's full amount must be remitted since charges cannot be deducted from the payment itself. And SEPA will allow for a dedicated reference field in the payment order, giving companies the opportunity to provide specific reference-related data (e.g., invoice, transaction and reference numbers, discounts taken, items descriptions, etc.) on the invoice that can be returned with the payment to enable auto-reconciliation against their accounts receivable system.

Therefore, companies need to think about what types of referencing data they would like to communicate on the invoice to their customers. The structure of the dedicated reference field will be harmonized across the entire eurozone, allowing companies to streamline their euro-based accounts receivable processing to include harmonized codes received back from banks regarding returns and rejections. The use of uniform standards for SEPA transactions will enable centralized and automated reconciliation of accounts payable and receivable activities for all transactions within the eurozone.

The SEPA Payment Services Directive also will harmonize the rules used for payment and collection processing. As such, it will provide a simpler and easier way to maintain a set of business rules with companies' accounts payable and receivable systems, which should result in more accurate euro cash forecasting and decreased days sales outstanding.

How can a bank like Deutsche Bank help US-based corporations leverage SEPA?
SEPA will bring a number of changes that will require adaptations of processes and systems on the corporate side. The fact that the existing national credit transfer and direct debit schemes will eventually be fully replaced by the new SEPA schemes means that all corporations doing business in or with Europe will be impacted, irrespective of the geographical reach of their business relations.

A bank like Deutsche Bank, one of the new scheme's architects, is well positioned to act as an advisor in the evolving SEPA initiative and in the migration to the new environment. A bank with a broad and longstanding network in Europe and on-the-ground expertise in major local payments markets can support corporations as they assess how to best leverage SEPA based on their existing cash management structure and payment processes in Europe.

While national payment instruments continue to be used along with the new SEPA instruments, it is important to team up with a banking partner that supports both schemes in parallel and can help you decide when to migrate.

Deutsche Bank will offer its customers the new payment instruments and SEPA-specific value-added services beginning in January 2008. But the Bank's products and solutions will continue to support the existing practices and systems, in parallel, until they are fully replaced by the new scheme.