



Guidance
on the handling of SDD R-transactions
and related charging principles
Explanatory document
with recommendations

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SEPA Migration Action Round Table

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1 Introduction and objectives of the document

On 1st February 2014, SEPA Credit Transfers (SCTs) and Direct Debits (SDDs) will replace the vast majority of the legacy credit transfer and direct debit schemes across the Eurozone. This move is part of the European initiative to create a fully integrated environment for euro payments, the Single Euro Payments Area (SEPA), which includes the 28 EU Member States plus Iceland, Norway, Liechtenstein, Switzerland and Monaco. In SEPA, consumers, businesses and governments should be able to make cashless payments from a single payment account using a single set of payment instruments as easily, efficiently and safely as they can make payments today in the domestic context.

Putting the SEPA vision into reality requires a smooth and successful mass migration process resulting in a consistent customer experience for users of the SEPA payment instruments all across Europe. This is particularly important with regard to the SEPA Direct Debit (SDD) Schemes, whose implementation entails a great number of changes for payment service users and providers alike.

One major challenge for banks in this context is SDD exception handling: banks will have to ensure that SDD transactions that are sent back by the debtor bank or called back by the creditor bank are processed in an efficient and highly automated way at low cost, in line with the requirements of the SEPA Regulation and of the SDD Scheme Rulebooks of the European Payments Council (EPC). Any actions taken by banks in this area should thus be geared at maximising the straight-through processing rate of these exceptional transactions and, where possible, minimising their occurrence.

In this context, banks across Europe have identified the need to formulate practical guidance on the handling of these so-called R-transactions (rejects, refusals, returns, refunds, reversals, revocations and requests for cancellation) as well as on the charging and handling of any fees related to these transactions in accordance with the SEPA Regulation.

The present document provides clarification on a number of key issues related to these topics. The document also includes best practices for the day-to-day operational handling of R-transactions and related charging principles.

This document has been compiled by the SEPA Migration Action Round Table (SMART) and endorsed by the banks listed on p. 22.

The present document does not provide a legal interpretation of Regulation (EU) No 260/2012 (the SEPA Regulation), does not constitute legal advice and has no legal status. The document is aimed at formulating practical guidance to banks on the implementation of the SEPA Regulation and relevant EPC documentation with regard to the operational handling of R-transactions and of related charging principles. This guidance is based on the SMART participants' knowledge, experience and best understanding of the SEPA Regulation as well as of the EPC SDD Scheme Rulebooks and Implementation Guidelines. It should be noted that the source documents take precedence and any implementation initiatives need to be based on a close analysis of the text of the Regulation and of the EPC documentation.

The SEPA Migration Action Round Table is a forum for banks and by banks, which is logistically supported by the Euro Banking Association. The mission of this forum is to deal with open issues and uncertainties in relation to the implementation in practice of the SEPA Regulation requirements and to the banks' day-to-day execution of SEPA Credit Transfers and Direct Debits, especially in the cross-border space. Its work is geared at bringing clarification to SEPA migration-related issues and defining industry best practices to support banks in their interbank and intra-bank handling of SEPA payments, independently of the payment infrastructure they use.

The SMART initiative should be considered as complementary to and not as duplicating any ongoing CSM-driven initiatives¹ that are aimed at optimising operational contingency measures in order to mitigate the impact on the CSM users of any exceptional situations related to the SEPA volume ramp-up.

¹One example of an initiative driven by a Clearing and Settlement Mechanism (CSM) in this field is the "STEP2 Operational Procedures Working Group". This group has been created by EBA CLEARING to work with the STEP2 participants on identifying SEPA migration-related operational contingency scenarios and on implementing measures aimed at mitigating the impact of such scenarios on the good functioning of the STEP2 SEPA Services.

2 What is an R-transaction?

² The SEPA Regulation defines R-transactions as follows in definition 25 of Article 2: “‘R-transaction’ means a payment transaction which cannot be properly executed by a PSP or which results in exception processing, inter alia, because of a lack of funds, revocation, a wrong amount or a wrong date, a lack of mandate or wrong or closed account”.

³ A detailed definition of the different R-transaction types can be found in the EPC SDD Core Scheme Rulebook, v6.1, section 4.4, pp. 29–31.

Some direct debit transactions require exceptional handling, because one of the parties involved does not or cannot process the collection in the normal way. This exception handling involves the sending of exceptional messages called R-transactions because their names all start with an R: rejects, refusals, returns, refunds, reversals, revocations and requests for cancellation.² Which of these R-transactions is used depends on the point in time in the processing chain at which the R-transaction is initiated or sent as well as on the party initiating or sending it.

The process of exception handling starts at the point in the process where the problem is detected. It is important to note that a bank must channel the R-transaction through the same CSM used for the clearing and settlement of the initial collection, unless otherwise agreed between the banks (see SDD Core Scheme Rulebook, v6.1, p. 31).

The following table gives an overview of the different types of R-transactions and their usage:³

R-transaction types and their occurrence in the end-to-end processing chain

SDD flow	SDD collection				Settlement	Post-settlement		
	Pre-settlement					Post-settlement		
		Reject (M/M)*	Refusal (M/M)	Request for Cancellation (M/O)		Return (M/M)	Refund (M/M)	Reversal (M/O)
Payment initiation or reporting message**	pain008 (c-b)	pain002 (b-c)	pain002 (b-c)	camt055 (c-b)		pain002 (b-c)	pain002 (b-c)	pain007 (c-b)
Payment clearing message	pac003	pac002	pac002	camt056	CSM	pac004	pac004	pac007
Who sends the R-transaction?		Debtor bank (based on own initiative); CSM	Debtor bank (based on debtor request)	Creditor bank (based on creditor request or own initiative)		Debtor bank (based on own initiative)	Debtor bank (based on debtor request)	Creditor bank (based on creditor request or own initiative)
Cut-off date***		D	D	D	D (timing depends on CSM)	Core: D+5T B2B: D+2T	Core: D+47T**** Core: D+440C****	Core: D+5T B2B: D+5T
Example		Wrong account number	Debtor does not want to pay	IT problem at creditor level leading to collections with incorrect data		No funds available on debtor account Technical problems at debtor bank level	Use of refund right but presence of valid mandate Unauthorised transaction, i.e. no mandate	IT problem at creditor level leading to collections with incorrect data

*The first letter inside the brackets indicates whether it is optional (O) or mandatory (M) for the debtor bank to accept this type of R-transaction. The second letter indicates whether it is optional (O) or mandatory (M) for the creditor bank to offer this type of R-transaction.

** Message in the customer-to-bank (c-b) or bank-to-customer (b-c) space

*** D refers to the settlement date defined by the creditor in the SDD collection message (pain.008), T to TARGET days (i.e. days on which the TARGET2 system operates) and C to calendar days. D+5T means that for an SDD Core collection a return must be processed within the 5 TARGET days following the settlement date D; after this period, the debtor bank is no longer allowed to initiate a return.

**** The cut-off dates provided for SDD Core refunds refer to the timings defined for STEP2, the Pan-European ACH of EBA CLEARING. They are based on the timelines required by the Payment Services Directive (eight weeks for refunds related to authorised transactions and 13 months for refunds related to unauthorised transactions) but take into account the number of possible public holidays lying in these periods.

2.1 Recommendations on the issuing of transactions and R-transactions

From a cost and efficiency point of view, it is preferable that R-transactions are sent during the pre-settlement phase rather than during the post-settlement phase. Therefore, debtor banks should consider completing as many of the checks they run on incoming collections as possible prior to the settlement of the collection.

Conversely, creditor banks should make sure that all possible automated checks are properly implemented and run on their side, so that any problems that could be detected at their level are identified before the collection is even sent to the CSM.

3 Considerations around the issuing and handling of reason codes

3.1 What are reason codes and why are they used?

There are many different reasons leading to the exception handling of direct debit collections. The reason why a transaction resulted in the sending of an R-transaction is usually communicated in the R-transaction via one of the reason codes defined for the SDD Schemes.⁴ The reason code should help the receiver of the R-transaction to understand why the original transaction was not successfully executed. Appropriate usage furthermore avoids unnecessary enquiries and enables automated end-to-end exception handling.

3.2 Why do reason codes not always reveal what caused the R-transaction?

It is not always possible to reach a conclusion on the cause of an R-transaction based on the reason code provided. In a number of European countries, some reason codes are not used because of legal restrictions (e.g. data protection laws) or local business practices. The below table gives an overview of the exceptional local usage rules with regard to reason codes that are in place in a number of Eurozone communities.

Another issue that makes it difficult to effectively interpret reason codes is that in some cases it is not entirely clear which reason code should be used and thus different banks may use different reason codes for the same problem. A detailed overview table of all the major reason codes used in the interbank space can be found in Annex 4 of the present document. This table gives a brief description of each reason code as well as practical examples and guidance on when which reason code should be used.

⁴A comprehensive overview and definition of reasons and reason codes can be found in the EPC SDD Core Scheme Interbank Implementation Guidelines, v.6.0, where the message element specifications for return, refund, reject and reversal transactions are detailed in chapter 2 "Mandatory Bank to Bank Messages", pp. 21–40.

Overview of country-specific exceptions with regard to reason code usage

Reason codes and their description	Austria	Belgium	Finland	France	Germany	Ireland
AC04 Account closed	✓	✓	✓	✓	✓	✓
AC06 Account blocked or blocked for DD by debtor	✓	✓	✓	✓	✓	✓
AG01 Direct debit forbidden on this account for regulatory reasons	✓	✓	✓	✓	There are no regulatory reasons that prevent a direct debit	✓
AG02 Operation / transaction code incorrect, invalid file format	✓	✓	✓	✓	✓	✓
AM04 Insufficient funds	Not used; MS03 used instead	Not used due to legal restriction; MS03 used instead	✓	✓	Not used due to customer protection; MS03 used instead	✓
BE05 Identifier of the creditor incorrect	✓	✓	✓	✓	✓	✓
FF01 Operation / transaction code incorrect, invalid file format	✓	✓	✓	✓	✓	✓
FF05 Direct Debit type incorrect (CORE only)	✓	✓	✓	✓	✓	✓
MD06 Disputed authorised transaction	✓	✓	✓	✓	✓	✓
MD07 Debtor deceased	✓	✓	✓	✓	Not used due to data protection; MS03 used instead	✓
MS02 Refusal by debtor	✓	✓	✓	✓	✓	✓
RC01 Bank identifier incorrect	✓	✓	✓	✓	✓	✓
RR01 Regulatory reason – missing debtor account or identification	✓	✓	✓	✓	Not used although allowed in DE	✓
RR02 Regulatory reason – missing debtor name or address	✓	✓	✓	✓	Not used although allowed in DE	✓
RR04 Regulatory reason	✓	✓	✓	✓	Not used although allowed in DE	✓

	Reason code is used / can be used	May be legally allowed, but used at the discretion of the debtor bank	Not allowed / not used			
Italy	Luxembourg	Netherlands	Portugal	Slovakia	Slovenia	Spain
✓	Some banks not using this code due to customer protection use MS03 instead	✓	✓	✓	✓	✓
✓	Some banks not using this code due to customer protection use MS03 instead	✓	✓	Not used by several banks due to data protection; MS03 used instead	✓	✓
✓	Some banks not using this code due to customer protection use MS03 instead	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	Not used due to data protection reasons	✓
✓	Some banks not using this code due to customer protection use MS03 instead	Banks not using this code use MS03 instead	✓	Not used by several banks due to data protection; MS03 used instead	✓	✓
✓	✓	✓	✓	✓	Not used due to data protection reasons	✓
✓	✓	✓	✓	✓	Not used due to data protection reasons	✓
✓	✓	✓	✓	✓	✓	✓
✓	Some banks not using this code due to customer protection use MS03 instead	✓	✓	Not used by several banks due to data protection; MS03 used instead	✓	✓
✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	Not used due to data protection reasons	✓
✓	✓	✓	✓	✓	Not used due to data protection reasons	✓
✓	✓	✓	✓	✓	Not used due to data protection reasons	✓
✓	✓	✓	✓	✓	✓	✓

This table has been created based on information listed in the Local Migration Rules – Survey Programme Management Forum of the EPC PMF, which, where possible, has been enriched with input provided by banks from different Eurozone countries. There was no input available for Croatia, Cyprus, Estonia and Malta.

Please note that the table only lists those interbank reason codes for which exceptional usage rules have been identified at community level. There may be additional variations related to the use of these or other reason codes at individual bank level.

3.3 To which extent do reason codes reveal who caused the R-transaction?

For the parties concerned by an R-transaction, it is of major relevance to be able to identify which party caused the R-transaction in order to fix the underlying problem. For the involved banks, this is also of importance in the context of charging for an R-transaction, since the cost of the R-transaction should be borne by the bank that caused the R-transaction (or whose customer caused the R-transaction, in which case the bank may of course directly charge the customer or pass on any related interbank charges to the customer).

This is a requirement of the SEPA Regulation, which stipulates in Art. 8(2): "For R-transactions a MIF may be applied provided that [...] (a) the arrangement aims at efficiently allocating costs to the PSP which, or the PSU of which, has caused the R-transaction [...]."

In practice, it is not always possible for the involved banks to clearly identify the party that caused the underlying problem of an R-transaction. The overview on the following page illustrates the difficulties experienced by banks when they try to establish the responsible party for an R-transaction based on the reason code provided:

3.4 Recommendations on the issuing of reason codes

The SEPA Regulation stipulates that exception handling must allow for a fully automated, electronic processing whenever possible (see Annex (1)(e)). The precise and consistent communication of reason codes supports this objective by improving the efficient handling of R-transactions at the level of the banks and customers receiving these transactions. This is why the SMART participants make the following recommendations with regard to issuing reason codes:

- Banks should provide reason codes that are as precise as possible, within the limits set by any national data protection legislation
- Banks are invited to use the table provided in Annex 4 of this document for guidance in cases where it is unclear which reason code should be selected – the provided recommendations are geared at ensuring consistency in the usage of reason codes in a number of specific situations.

Classification of reason codes according to the party causing the R-transaction

Reason codes and their description	Creditor	Creditor bank	Debtor bank	Debtor
AC01 Account identifier incorrect	✗	○ Could also be used in case of an IBAN – BIC mismatch caused by creditor or creditor bank		✗
AC04 Account closed	○ If creditor was informed by debtor		○	✗
AC06 Account blocked or account blocked for DD by debtor			✗	✗
AG01 Direct debit forbidden on this account for regulatory reasons			○	✗
AG02 Operation / transaction code incorrect, invalid file format	✗	✗		
AM04 Insufficient funds				✗
AM05 Duplicate collection	✗	✗		
BE05 Identifier of the creditor incorrect	✗	✗		
FF01 Operation / transaction code incorrect, invalid file format	✗	✗		
FF05 Direct Debit type incorrect (CORE only)	✗			
MD01 No valid mandate or unauthorised transaction	✗ Caused by creditor in case of SDD Core			✗ May be caused by debtor in case of SDD B2B (debtor has to register mandate first)
MD02 Mandate data missing or incorrect	✗	✗		
MD06 Disputed authorised transaction	✗			✗
MD07 Debtor deceased				✗
MS02 Refusal by debtor	✗			✗
MS03 Reason not specified	?	?	?	?
RC01 Bank identifier incorrect	○	✗		
RR01 Regulatory reason – missing debtor account or identification	✗	✗		
RR02 Regulatory reason – missing debtor name or address	✗	✗		
RR03 Regulatory reason – missing creditor name or address	✗	✗		
RR04 Regulatory reason	?	?	?	?
SL01 Specific service offered by the debtor bank			✗	✗

✗ Indicates for each reason code which party may have caused the problem leading to the R-transaction

○ Refers to exceptional, i.e. less likely, additional cases

? Indicates that there is no clear responsible party for the reason code concerned

CODE Most frequently used reason codes are marked in red

4 Considerations around the charging for R-transactions

4.1 Under which circumstances can a bank charge for an R-transaction?

The SEPA Regulation has introduced rules that will apply to the charging of fees for R-transactions from 1st February 2014 on. It is important to note that these rules in Art. 8(2)⁵ have to be met for multilateral interchange fee (MIF) arrangements as well as for R-transaction charges that are agreed bilaterally or applied unilaterally.

The conditions to be fulfilled with regard to charging for R-transactions are the following:

- The charging arrangement should ensure that the cost of the R-transaction is efficiently allocated to the bank that has caused the R-transaction or whose customer has caused the R-transaction
- Any R-transaction fee must be strictly cost-based and not higher than the actual cost that the handling of such a transaction would cause at the level of the most cost-efficient comparable bank that is a representative party to the charging arrangement (the representative character of a bank in this context is established based on volumes processed and nature of services offered)

- There should be no automatic charging of the payer and no charging of any extra fees to customers in addition to the cost-covering fee mentioned above
- An R-transaction charging arrangement should only be applied if there is no practical alternative that would be as efficient but cheaper for retail customers.

4.2 What R-transaction charging arrangements are planned in the different European countries from February 2014 on?

As detailed in the below table, no multilateral interchange fee arrangements for R-transactions are planned throughout Europe, except for France, where the local banking community agreed on a MIF arrangement, which has been in place since 1st September 2013. It should be noted, however, that in several other countries, banks plan to apply R-transaction charges unilaterally in the interbank space. Banks across Europe should be aware that in a number of cases, these charges may also be applied to cross-border transactions.

⁵ The complete text of Art. 8 of the SEPA Regulation is provided in Annex 3 of this document.

R-transaction charging arrangements planned in selected Eurozone countries from 1st February 2014

Country	Multilateral R-transaction fee arrangement for SDD from February 2014?	If no, do some banks plan to charge for R-transactions based on a bilateral agreement or unilaterally?	Will any interbank fees be applied to cross-border R-transactions?
Austria	No	Yes, some banks will charge unilaterally in the interbank space	Dependent on individual banks' decision
Belgium	No	No	No
Finland	No	Dependent on individual banks' decision	Dependent on individual banks' decision
France	Yes. New multilateral R-transaction fee arrangement from 1 st September 2013; charging is based on quarterly statistics provided by the CSM and the settlement is done directly between the French banks (outside the SEPA Schemes).	N/A	Dependent on individual banks' decision
Germany	No	Yes, some banks will charge unilaterally in the interbank space	Dependent on individual banks' decision
Ireland	No	No	Dependent on individual banks' decision

This table has been compiled based on input provided by banks in different Eurozone communities. The SMART has not received any input for Croatia, Cyprus, Estonia, Malta, Slovakia and Slovenia.

While the table provides an overview of the situation at national level for each listed country, there may be additional R-transaction MIF arrangements planned for specific sectors or communities within these countries.

* The detailed fees for each R-transaction type can be found in the document *Décision n°13-DSE-01 du 30 juillet 2013 relative aux engagements rendus obligatoires par la décision n°12-D-17 du 5 juillet 2012 de l'Autorité de la Concurrence*, p. 13.

Country	Multilateral R-transaction fee arrangement for SDD from February 2014?	If no, do some banks plan to charge for R-transactions based on a bilateral agreement or unilaterally?	Will any interbank fees be applied to cross-border R-transactions?
Italy	No	No charges in the interbank space	Dependent on individual banks' decision, based on their agreements with banks in other countries
Luxembourg	No	Some banks may charge unilaterally in the interbank space. Their decision may depend on the charging practices applied by other banks. Customers may be charged for R-transactions if they are accountable for the R-transaction.	Depends on the decision of individual banks
Netherlands	No, the Dutch interbank Steering Group SEPA agreed not to charge a multilateral interchange fee for R-transactions resulting from SEPA Direct Debits initiated and payable in the Netherlands.	Some banks may decide to charge for R-transactions on a bilateral basis or unilaterally for SDD transactions initiated and payable in the Netherlands or abroad. Their decision may depend on the charging practices applied by other banks. They may also decide to charge their customers for R-transactions.	Depends on the decision of individual banks
Portugal	Decision-making still ongoing for the Portuguese community		
Spain	No	No charges in the interbank space	N/A

4.3 Recommendations on charging practices around R-transactions

Recommendations on basic principles to be applied when charging for an R-transaction

R-transaction interchange fee arrangements are allowed by the SEPA Regulation because the regulators considered that they could help to efficiently allocate the cost of the R-transaction to the party that has caused the R-transaction (Recital (20) and Art. 8(2)). In line with this objective, the SMART participants have established the following basic guiding principles for any R-transaction charging practices:

- R-transaction charges should ultimately be borne by the party that caused the issue that led to the R-transaction
- R-transaction charging principles should be geared at allocating these charges as directly and efficiently as possible to the party that should bear them.

Accordingly, if a bank is able to identify the specific party that has caused the R-transaction, it should charge any cost-based fees directly to that party or to its bank.

Recommendation on how to charge for an R-transaction

At this stage, no uniform operational practices have been established as to how a bank should claim or charge R-transaction fees from / to another bank. In order to avoid that banks are faced with multiple ways of being charged for SDD R-transactions and related reconciliation issues, the SMART participants recommend the following best practices:

- For R-transactions taking place prior to settlement (reject or refusal): (periodical) invoices should be sent to claim any R-transaction fees. Reference should be made to the original SDD, the R-transaction and the reason code, in particular in case of cross-border SDDs. Alternatively, banks could use the field foreseen in the R-transaction message for charges information,⁶ but would need to agree with their counterparties on how to settle the claimed charges
- For R-transactions taking place after settlement (return or refund): the R-transaction fee should be added to the R-transaction, i.e. the fee should be debited from the account of the bank receiving the R-transaction together with the original amount of the collection.

⁶ For further details, see SDD Core Scheme Interbank Implementation Guidelines, v6.0, p. 30

Recommendations geared at supporting transparency around R-transaction fees

The SEPA Regulation states that payment service providers must provide clear and understandable information to consumers on R-transaction fees in the interests of transparency and consumer protection (Recital (20)). Furthermore, Art. 8(2)(e) states that “[t]he breakdown of the amount of the costs, including separate identification of each of its components, shall be part of the arrangement to allow for easy verification and monitoring.”

To this effect, the SMART participants recommend that each bank provides clear and detailed information, in a transparent manner, on the fees it applies to the different types of R-transactions – both for the fees it applies to its customers and for the fees it applies in the interbank space.

Annex 1 References

- Regulation (EU) No 260/2012 of 14th March 2012 of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009, published on 30th March 2012 (“the SEPA Regulation”)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:094:0022:0037:EN:PDF>
- SEPA Core Direct Debit Scheme Rulebook of the European Payments Council, version 6.1 of November 2012 and version 7.0 of November 2012 (EPC016-06)

Version 6.1
http://www.europeanpaymentscouncil.eu/knowledge_bank_download.cfm?file=EPC016%2D06%20Core%20SDD%20RB%20v6%2E1%20Approved%2Epdf

Version 7.0
http://www.europeanpaymentscouncil.eu/knowledge_bank_download.cfm?file=EPC016%2D06%20Core%20SDD%20RB%20v7%2E0%20Approved%2Epdf
- SEPA Core Direct Debit Scheme Interbank Implementation Guidelines, version 6.0 of November 2011 (EPC114-06)

http://www.europeanpaymentscouncil.eu/knowledge_bank_download.cfm?file=EPC114%2D06%20Interbank%20Core%20DDIG%20V6%2E0%20Approved%20November%202011%2Epdf
- SEPA B2B Direct Debit Scheme Interbank Implementation Guidelines, version 4.0 of November 2011 (EPC315-10)

http://www.europeanpaymentscouncil.eu/knowledge_bank_download.cfm?file=EPC131%2D08%20C2B%20B2B%5FDIG%20V4%2E0%20Approved%20November%202011%2Epdf
- Directive (EC) No 64/2007 of 13th November 2007 of the European Parliament and of the Council on payment services in the internal market (Payment Services Directive – PSD)

http://eur-lex.europa.eu/LexUriServ/site/en/oj/2007/l_319/l_31920071205en00010036.pdf
- Local Migration Rules – Survey Programme Management Forum, version 0.2 of January 2013 (PMF048-12)
- Clarification Paper: SEPA Credit Transfer and SEPA Direct Debit, version 2.0 of June 2013 (EPC348-12)

http://www.europeanpaymentscouncil.eu/knowledge_bank_download.cfm?file=EPC348%2D12%20v2%2E0%20SCT%20and%20SDD%20Clarification%20Paper%2Epdf
- Décision n°13-DSE-01 du 30 juillet 2013 relative aux engagements rendus obligatoires par la décision n°12-D-17 du 5 juillet 2012 de l’Autorité de la Concurrence (in French)

<http://www.autoritedelaconcurrence.fr/doc/13dse01.pdf>

Annex 2 How can banks contact counterparties to settle any issues related to specific SDD (R-)transactions?

Some CSMs offer web-based directories with participant contact information to support their users in getting in touch with each other bilaterally and settle any issues related to specific SDD transactions or R-transactions. If needed, banks should contact their respective CSMs to enquire about such support services.

Annex 3 Article 8 of Regulation (EU) No 260/2012

“Interchange fees for direct debit transactions

1. Without prejudice to paragraph 2, no MIF per direct debit transaction or other agreed remuneration with an equivalent object or effect shall apply to direct debit transactions.

2. For R-transactions a MIF may be applied provided that the following conditions are complied with:

(a) the arrangement aims at efficiently allocating costs to the PSP which, or the PSU of which, has caused the R-transaction, as appropriate, while taking into account the existence of transaction costs and ensures that the payer is not automatically charged and the PSP is prohibited from charging PSUs in respect of a given type of R-transaction fees that exceed the cost borne by the PSP for such transactions;

(b) the fees are strictly cost based;

(c) the level of the fees does not exceed the actual costs of handling an R-transaction by the most cost-efficient comparable PSP that is a representative party to the arrangement in terms of volume of transactions and nature of services;

(d) the application of the fees in accordance with points (a), (b) and (c) prevent the PSP from charging additional fees relating to the costs covered by those interchange fees to their respective PSUs;

(e) there is no practical and economically viable alternative to the arrangement which would lead to an equally or more efficient handling of R-transactions at equal or lower cost to consumers.

For the purposes of the first subparagraph, only cost categories directly and unequivocally relevant to the handling of the R-transaction shall be considered in the calculation of the R-transaction fees. Those costs shall be precisely determined. The breakdown of the amount of the costs, including separate identification of each of its components, shall be part of the arrangement to allow for easy verification and monitoring.

3. Paragraphs 1 and 2 shall apply *mutatis mutandis* to unilateral arrangements by a PSP and to bilateral arrangements between PSPs that have an object or effect equivalent to that of a multi-lateral arrangement.”

Annex 4

Overview table with interbank reason code descriptions, explanations and guidance

Clarifying description of interbank reason codes and guidance geared at ensuring consistent reason code usage*

Reason code, R-transaction type and SEPA reason as specified in the EPC SDD Core IGs v6.0 and B2B IGs v4.0	Description
AC01 (Rj, Rt) Account identifier incorrect	The IBAN provided for the debtor account is incorrect
AC04 (Rj, Rt) Account closed	The debtor account does not exist anymore
AC06 (Rj, Rt) Account blocked or account blocked for DD by debtor	The debtor account is not open for incoming SEPA Direct Debit collections
AC13 (Rj, Rt) Debtor account is a consumer account	The debtor account cannot be debited for the amount of the incoming SDD B2B collection because it is a consumer account
AG01 (Rj, Rt) Direct debit forbidden on this account for regulatory reasons	Direct debits are not allowed on this type of account for regulatory reasons
AG02 (Rj, Rt) Operation / transaction code incorrect, invalid file format	To be used to indicate an incorrect operation code / transaction code / sequence type

*For detailed recommendations on actions to be taken by parties involved, reference is made to the EPC SDD Scheme Rulebooks and Implementation Guidelines as well as to the EPC clarification paper on SEPA Credit Transfer and SEPA Direct Debit (see Annex 1 for detailed references).

It should also be noted that besides the reason codes used between banks, which are listed in this table, there are other reason codes used in the bank-to-customer space or between CSMs and banks, e.g. CNOR and DNOR. Banks should refer to the full set of EPC documentation and the specifications issued by their CSMs to get a complete picture of the reason codes used in the context of SDD R-transactions.

In order to provide more clarity on what each reason code means and when it should be used, the below table gives brief descriptions of all the major reason codes used in the interbank space as they have been listed in the EPC SDD

Scheme Rulebooks and Implementation Guidelines. The table also includes additional guidance and comments geared at ensuring a consistent usage and interpretation of reason codes:

Typical examples	Recommendation or comment
<ol style="list-style-type: none"> 1. Incorrect IBAN provided by debtor on the mandate 2. IBAN incorrectly de-materialised from mandate 3. Incorrect conversion from BBAN to IBAN 	<p>The SMART participants recommend also using AC01 as standard reason code in case of a mismatch between IBAN and BIC.</p> <p>Many receiving banks are unable to check whether the IBAN provided for the debtor is actually correct (but only belongs to another bank), especially at a cross-border level. Thus, these banks can only use AC01 for the R-transaction.</p> <p>This should therefore be the uniform code used for this type of problem (instead of RC01 – incorrect BIC).</p> <p>The bank receiving the R-transaction should be aware that the reason may be a mismatch between the IBAN and the BIC rather than an incorrect IBAN.</p>
The debtor has closed this account	
<ol style="list-style-type: none"> 1. The debtor has blocked this account for direct debits or (if it was blocked for DDs by default) has not opened it for DDs 2. The debtor is underage 3. The debtor bank has applied a block due to various reasons, including liquidation or ongoing dispute 	<p>NB: AC06 should be used only if accounts are blocked for incoming SDD collections in general.</p> <p>If the account is blocked because of functionality offered by the debtor bank (i.e. VAS) that is considered optional by the SDD Scheme Rulebooks, SL01 should be used.</p>
The account is not a payment account but for instance a savings account	In practice, this code is mainly used to indicate that the account type is not a current account (as opposed to AC06, which should be used if the account is a current account but blocked for SDD in general).
<ol style="list-style-type: none"> 1. The collection includes the sequence type <i>recurrent</i> but there has not been a previous collection featuring the sequence type <i>First</i> 2. The debtor bank receives a recurrent collection but the previous collection included the sequence type <i>Final</i> 3. An SMNDA is sent without the sequence type set to <i>First</i> 4. Use of a code field that is outside the ISO/EPC permitted list – e.g. Local Instrument 	This code will only be used for sequence type errors by 1 st February 2014. It should be mainly used to specify that a transaction was out of sequence. Starting from that date, MD01 should no longer be used for indicating a wrong sequence type.

Reason code, R-transaction type and SEPA reason as specified in the EPC SDD Core IGs v6.0 and B2B IGs v4.0	Description	Typical examples	Recommendation or comment
AM04 (Rj, Rt) Insufficient funds	There is not enough money in the debtor account to cover the incoming DD collection		NB: For data protection reasons, this reason code is not used in a number of communities (see table in section 3.2). Most debtor banks that do not use AM04 use MS03 instead.
AM05 (Rj, Rt, Rv) Duplicate collection	The debtor has received a DD collection that is identical to a previously received collection	An IT issue at the level of the creditor or creditor bank has led to an accidental repeated sending of a transaction	
BE05 (Rj, Rt) Identifier of the creditor incorrect	The creditor ID is incorrect or missing	<ol style="list-style-type: none"> 1. There is a mistake in the creditor ID revealed by the check digits checked by the debtor bank 2. The creditor ID on the mandate has changed without being flagged as an amendment 	
FF01 (Rj) Operation / transaction code incorrect, invalid file format	The file format of the operation or transaction code is incorrect	<ol style="list-style-type: none"> 1. There is a mandatory field missing from the file (used XML format not correct) 2. A file contains a field that is not populated as per interbank specification or CSM specification 	
FF05 (Rj, Rt) Direct Debit type incorrect (CORE only)	The DD type is incorrect because it refers to a local instrument or instrument option that is not supported by the debtor bank (this reason code is used under the SDD Core Scheme only)	<ol style="list-style-type: none"> 1. The DD type states COR1 but the debtor bank does not support the SDD COR1 Option 2. The DD type states a value other than COR, COR1 or B2B 	
MD01 (Rj, Rfd, Rt) No valid mandate or unauthorised transaction	There is no valid mandate for the DD collection	<p>There is no valid mandate, because e.g.</p> <ol style="list-style-type: none"> 1. the mandate has not been used for 36 months and hence is no longer valid 2. the mandate has not been registered with the debtor bank yet (this applies to SDD B2B only) 3. the collection was an unauthorised transaction 	<p>NB: Today, MD01 is also used to indicate that a RCUR instruction has been received and no FRST instruction is in place – from 1st February 2014 on, AG01 should be the preferred code for this type of wrong sequence issue</p> <p>Furthermore, in some countries (e.g. Germany and Ireland), MD01 is also used to document that a mandate has been revoked by the debtor at the level of the debtor bank (instead of at the level of the creditor).</p> <p>In this context, MD01 in response to a RCUR (after at least one successful SDD) means that the mandate was withdrawn (and cannot be “resurrected” as per SDD Scheme Rulebooks).</p> <p>In case of an SDD Core collection and a service of the debtor bank to check against a white list, any failure must not be communicated by using MD01 but by using SL01.</p>
MD02 (Rj) Mandate data missing or incorrect	There are missing or incorrect data in the mandate-related information (MRI) sent with the DD collection	<ol style="list-style-type: none"> 1. The creditor ID or the mandate reference in the MRI are not identical to those in the mandate (e.g. because they have been changed but the change has not been flagged as an amendment) 2. Two FRST transactions are received for the exact same mandate 	<p>This code is mostly used in cases where the mandate reference corresponds to a mandate stored at the debtor bank.</p> <p>It is used in cases where the debtor bank’s cross-check reveals inconsistencies between the data in the mandate data and the MRI, e.g. a creditor ID mismatch.</p> <p>If no mandate with the mandate reference of the transaction can be found in the debtor bank’s databases, then SL01 (SDD Core) or MD01 (SDD B2B) should be used (SL01 is used because checking the MRI against a mandate would have been a special SDD-related service offered by the debtor bank).</p>

Reason code, R-transaction type and SEPA reason as specified in the EPC SDD Core IGs v6.0 and B2B IGs v4.0	Description
MD06 (Rfd) Disputed authorised transaction	The debtor claims a refund for a collection that has already been settled
MD07 (Rj, Rt) Debtor deceased	The debtor holding the account has died
MS02 (Rj, Rv, Rt) Refusal by debtor or reversal by creditor	The debtor refuses the debiting of his/her account by this DD collection or the creditor reverses the collection without giving a specific reason
MS03 (Rj, Rv, Rt) Reason not specified	The debtor bank or the creditor bank issues an R-transaction without giving a specific reason
RC01 (Rj, Rt) Bank identifier incorrect	The BIC of the debtor bank is incorrect
RR01 (Rj, Rt) Regulatory reason – missing debtor account or identification	The debtor's account or identification details are missing
RR02 (Rj, Rt) Regulatory reason – missing debtor name or address	The name or address of the debtor is missing in the DD collection
RR03 (Rj, Rt) Regulatory reason – missing creditor name or address	The name or address of the creditor is missing in the DD collection
RR04 (Rj, Rt) Regulatory Reason	R-transaction initiated because of regulatory reasons
SL01 (Rj, Rt) Specific service offered by the debtor bank	The DD collection has clashed with special restrictions that the debtor has put in place for incoming DD collections based on the consumer protection rights stipulated by the SEPA Regulation

Typical examples	Recommendation or comment
The debtor makes use of his 8-week refund right	
	NB: For data protection reasons, this reason code is not used in a number of communities (see table in section 3.2). Most debtor banks that do not use MD07 use MS03 instead.
The debtor refuses to pay for a collection that has been pre-advised to him/her, because its amount or frequency exceeds what he/she could reasonably expect	This reason code is part of an R-transaction message sent prior to or after settlement, depending on the agreement between the banks and their customers and on how timely the banks are able to react to the customer's (pre-settlement) refusal.
There are not enough funds in the debtor account but the debtor bank is not allowed to provide that information to the creditor bank because of local data protection laws	MS03 is the reason code used in a large number of R-transactions. It is often used instead of reason codes that banks are not allowed to or choose not to use (i.e. for data protection reasons). Since MS03 is not helpful for the subsequent processing, it should not be used in any other cases.
1. The BIC is not a valid BIC 2. The BIC is not reachable for SEPA	
The IBAN of the debtor is missing	The IBAN is a mandatory item of the SDD collection. A missing IBAN should cause a syntax error already at the creditor access level. Consequently, this code should not be much used in the interbank space but rather between the creditor bank and the creditor.
	The name of the debtor is a mandatory item of the SDD collection. If this element is missing, it should cause a syntax error already at the creditor access level. The address of the debtor is an optional field, i.e. it does not need to be provided in an SDD collection. Consequently, this code should not be much used in the interbank space but rather between the creditor bank and the creditor.
	The name of the creditor is a mandatory item of the SDD collection. If this element is missing, it should cause a syntax error already at the creditor access level. The address of the creditor is an optional field, i.e. it does not need to be provided in an SDD collection. Consequently, this code should not be much used in the interbank space but rather between the creditor bank and the creditor.
	Return reason codes should support the correction at the initiator's end. RR04 does not meet this requirement. Consequently, RR01–RR03 should be used instead of RR04.
The debtor has blacklisted or has not whitelisted the creditor or the amount of the DD collection is higher than the maximum limit set by the debtor for collections under this mandate	

List of endorsing banks

Guidance on the handling of SDD R-transactions and related charging principles: Explanatory document with recommendations has been endorsed by representatives of the following banks participating in the SEPA Migration Action Round Table (SMART):

ABN AMRO Bank

Aktia Bank

Banco Comercial Português

Bank of America

Merrill Lynch

Bank of Ireland

BCEE Luxembourg

BNP Paribas

Citibank

Deutsche Bank

Helaba – Landesbank

Hessen-Thüringen

HSBC

J.P. Morgan

Lloyds Banking Group

Nordea Bank

Rabobank

SEB

Svenska Handelsbanken

Swedbank

The Royal Bank of Scotland

About the SEPA Migration Action Round Table (SMART)

The SEPA Migration Action Round Table is a forum for banks and by banks, which is logistically supported by the Euro Banking Association. The mission of this forum is to deal with open issues and uncertainties in relation to the implementation in practice of the SEPA Regulation requirements and to the banks' day-to-day execution of SEPA Credit Transfers and Direct Debits, especially in the cross-border space. Its work is geared at bringing clarification to SEPA migration-related issues and defining industry best practices to support banks in their interbank and intra-bank handling of SEPA payments, independently of the payment infrastructure they use.

For more information on SMART and any further recommendations issued by the group, please visit www.abe-eba.eu/N=SMART.aspx.

The present document has been produced under the chairmanship of Björn Flismark, SEB, and Jan Paul van Pul, ABN AMRO Bank.

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