SEPA

A guide to understanding

for Pegasus customers

What is SEPA?

The Single Euro Payments Area (SEPA) is a European Union initiative that will change the way euro electronic payments are processed across Europe. Within SEPA, individuals and businesses will be able to make and receive electronic payments in euros simply, cheaply and efficiently, regardless of their location.

SEPA will impact electronic payments between 33 countries: the 28 member states of the European Union, the four members of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), and Monaco. For these countries, euro-denominated cross-border electronic payments must be transmitted in a SEPA-compliant format.

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What are the main changes SEPA will bring?

From 1 February 2014, existing national euro credit transfer and direct debit schemes will be replaced by SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) schemes. All types of euro payments will be affected, from staff payroll to paying creditors or receiving a euro electronic payment from customers within SEPA. The main changes include:

1. Standardised bank account identifiers: IBAN and BIC

These new identifiers will replace the existing ones: sort codes and account numbers.

- **IBAN (International Bank Account Number)** is an international standard for quoting account numbers across Europe and is increasingly being adopted globally. The IBAN contains enough detail to identify the bank, the branch and the individual account.

- **BIC (Bank Identifier Code)** is a unique address that identifies a financial institution.

2. SEPA schemes will replace existing Euro Credit Transfers and Direct Debits with standard XML format.

- Euro Credit Transfers (CT) will be replaced by SEPA Credit Transfers (SCT). These are used, for example, for paying a supplier for goods/services they have provided to you.

- Euro Direct Debits (DD) will be replaced by SEPA Direct Debits (SDD). These are used, for example, for recovering money owed to you by customers that you have provided goods/services to.

SEPA mandates the use of standard file formats for the transmission of data related to electronic payments made in euros. These files will now be in XML format.

What is the aim of SEPA?

The main aim of SEPA is to improve the efficiency of cross-border payments and turn the disjointed national markets for euro payments into a single domestic one. This means that once SEPA has been achieved, it will be possible to exchange euro payments between any accounts in participating countries as easily as it is possible today within national borders. In SEPA there will be no differentiation between national and cross-border euro payments.

The project will incorporate the progression of common financial tools, standards, procedures and infrastructure, to enable economies of scale. The aim is to reduce the overall cost to the European economy of moving capital around the region.

What will be the benefits of SEPA?

SEPA will assist pan-European trade by making it simpler and cheaper to send or receive euro payments

- **Simplified and standardised payments.** You'll be able to make cashless euro payments to anyone located within SEPA, using a single bank account and a single set of payment tools. You'll be able to make and receive payments seamlessly, collect a direct debit on any euro account or make a credit transfer to any euro account within SEPA. This standardises euro electronic payments, making it easier to pay for goods and services.

- **Faster payments.** There will be guaranteed next-day value for payments across SEPA, ensuring fast settlement and simplified processes to help improve cash flow and reduce costs.

- **Improved reconciliation and consolidation of payment activity into one bank account.** SEPA payment standards support more detailed information which is designed to help with the reconciliation process. Fewer accounts means greater control; if you currently have multiple payables and collections accounts in Europe you can now manage and consolidate these activities into individual accounts.

- **Flexibility and new business opportunities.** Being able to collect payments domestically and across Europe via SEPA Direct Debit (SDD) could potentially open up new business opportunities and new markets for many organisations. Companies that previously relied on credit card payments for transactions across Europe will now be able to offer direct debits to their customers to pay for goods and services.

What do the changes mean for your business?

If your company trades in the eurozone, you'll need to comply with SEPA requirements if you make credit transfer payments and/or initiate direct debit collections.

As from 1 February 2014, all existing national systems will close. You therefore need to make sure that your direct debit software, accounting systems and payroll, if relevant, are ready before this date so that you can continue to make compliant electronic payments in euros.

Do you have to conform to SEPA standards?

Yes, you do, if you want to make payments in euros or collect direct debits in euros. EU regulation 260/2012 means that all UK and Ireland companies that trade in the eurozone must conform to SEPA standards by 1 February 2014.

How does SEPA affect companies using Opera 3 and Opera II in Ireland?

SEPA particularly affects Opera 3 and Opera II users in the Republic of Ireland. Any euro payments made to the rest of the eurozone or within Ireland itself will have to be in a SEPA-compliant file format. If an Irish Opera 3 or Opera II user pays a UK supplier in euros, it's possible that such payments will also have to be in a SEPA-compliant file format. This means that you'll need to know your supplier's BIC and IBAN details and make the payment using the SEPA-compliant version of Opera 3 or Opera II which is due for release in autumn 2013. However, if an Irish Opera 3 or Opera II user pays a UK supplier in sterling, these payments cannot be accepted in a SEPA-compliant file format.

How does SEPA affect companies using Opera 3 and Opera II in the UK?

SEPA will currently have no impact on sterling electronic payments. If, however, you make BACS payments from a euro bank account to a supplier in the eurozone, those payments will have to be SEPA-compliant. This means that you'll need to know your supplier's BIC and IBAN details and make the payment using the SEPA-compliant version of Opera 3 or Opera II which is due for release in autumn 2013.

How will SEPA affect your Opera 3 or Opera II software?

New fields will be added to the bank account details in the Sales Ledger, Purchase Ledger, Nominal Ledger and Cashbook. These new fields will allow you to record both the IBAN and the BIC details against supplier, customer and bank account records. These new codes will be used as the main identifiers, rather than the existing sort codes and account numbers.

New fields will also be added to the Company Profiles form within System Manager. This will allow you to record your own company's BIC and IBAN details that can be printed on stationery and reports produced in Opera 3 or Opera II.

If you make payments in euros, SEPA will heavily affect the purchasing side of your business. The Purchase Ledger will be enhanced to generate and transfer BACS in the correct XML format to be compliant with SEPA. This will enable you to make payments to your euro account suppliers. In addition, there will be an option to specify one additional BACS system choice within the Purchase Ledger Set Options. This will give you a choice of two different BACS systems that can be used for creating payment files. For example, you may want to create one SEPA payment file for your euro payments and another for your sterling payments.

Sales will also be affected, if you receive electronic payments in euros. Opera 3 and Opera II do not cater for direct debits; such capability is provided by bespoke/third party solutions. This means that any SEPA-related changes to direct debits will be handled by your third party, outside of Opera 3 or Opera II itself.

Pegasus is currently developing Opera 3 and Opera II to ensure that it will be SEPA-compliant. If you have a current Annual Maintenance Contract (AMC), you'll be provided with the SEPA upgrade to ensure that you're ready by 1 February 2014. And as we progress towards migration to SEPA, we'll be providing support material to assist you in your preparations.

The autumn 2013 releases of Opera 3 and Opera II will be SEPA-compliant

What do you need to do now?

- ● Contact your bank

You should contact your bank to ensure that they will be SEPA-compliant. Your bank will be able to advise you on any actions that you need to take.

- ● Contact third party software providers

If you currently use third-party products to receive direct debit or BACS payments into Opera 3 or Opera II, you must ensure that you confirm with the third party software supplier that their software will be compliant with SEPA.

- ● Record BIC and IBAN details

To support SEPA, all companies must record the BIC and IBAN details for all associated euro-denominated bank accounts, instead of just recording sort codes and account numbers.

For Opera 3 and Opera II users it may be useful to run Pegasus XRL or Reporter reports to extract existing bank account information into an Excel spreadsheet, which you can use to collate IBAN and BIC codes. You will then be ready to update bank details when the SEPA release becomes available.

Useful links

http://www.albany.co.uk/knowledge-centre/single-euro-payments-area

http://www.financialdirector.co.uk/financial-director/feature/2261553/single-payment-area-priceless

http://business.aib.ie/products/payments/understanding-sepa

http://www.readyforsepa.ie/business.html

http://businessbanking.bankofireland.com/online-business-banking/single-euro-payments-area/

http://www.ipso.ie/section/SepaCustomerFileFormats

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