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

Version 3.0
September 2014

New
and updated
version

SEPA **M**igration **A**ction **R**ound **T**able

facilitated by the Euro Banking Association

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1 Introduction and objectives of the document

SEPA Credit Transfers (SCTs) and Direct Debits (SDDs) have replaced the vast majority of the legacy credit transfer and direct debit schemes across the Eurozone. This major changeover was completed on 1st August 2014 as 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, Monaco and San Marino. In SEPA, consumers, businesses and governments should be able to easily, efficiently and safely make cashless payments across Europe from a single payment account using a single set of payment instruments.

Putting the SEPA vision into reality requires a smooth and successful completion of the mass migration process from legacy to SEPA instruments. The result should be 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 has entailed 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 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 identified in 2013 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.

Guidance on the handling of SDD R-transactions and related charging principles was first issued in September 2013. The document provides clarification on a number of key issues related to these topics. It also includes best practices for the day-to-day operational handling of R-transactions and related charging principles.

The present version was published in September 2014. It contains a new section with guidance on the provision of additional information on R-transaction types to the creditor, a new table describing specific local practices in place in connection with SDD (R-)transactions and a number of updates.

This document has been compiled by the SEPA Migration Action Round Table (SMART) and endorsed by the banks listed on p. 30.

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 crossborder space. Its work is geared at bringing clarification to SEPA migration-related issues and defining industry best practices to support banks in their inter-bank and intra-bank handling of SEPA payments, independently of the payment infrastructure they use.

2 What is an R-transaction?

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.[1] 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, v7.1, p. 29).

The following table gives an overview of the different types of R-transactions and their usage:[2]

[1] 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".

[2] A detailed definition of the different R-transaction types can be found in the EPC SDD Core Scheme Rulebook, v7.1, section 4.4, pp. 28–29.

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

SDD flow	SDD collection	Pre-settlement		
		Reject (M/M)*	Refusal (M/M)	Request for Cancellation (M/O)
Payment initiation or reporting message**	pain008 (c–b)	pain002 (b–c)	pain002 (b–c)	camt055 (c–b)
Payment clearing message	pacs003	pacs002	pacs002	camt056
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)
Cut-off date***		D	D	D
Example		Wrong account number	Debtor does not want to pay	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.

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.

Settlement	Post-settlement		
	Return (M/M)	Refund (M/M)	Reversal (M/O)
	pain002 (b−c)	pain002 (b−c)	pain007 (c−b)
CSM	pacs004	pacs004	pacs007
	Debtor bank (based on own initiative)	Debtor bank (based on debtor request)	Creditor bank (based on creditor request or own initiative)
D (timing depends on CSM)	Core: D+5T B2B: D+2T	Core: D+47T**** ———— Core: D+440C****	Core: D+5T B2B: D+5T
	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 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.

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.[3] 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.

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

Reason codes and their description		Austria	Belgium	Cyprus	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	✓	✓	✓	✓	✓	Not used due to data protection restrictions; MS03 used instead	✓
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 data protection restrictions; MS03 used instead	✓
BE05	Identifier of the creditor incorrect	✓	✓	✓	✓	✓	✓	✓
FF01	Operation / transaction code incorrect, invalid file format	✓	✓	✓	✓	✓	Not used because of lack of relevance	✓
FF05	Direct Debit type incorrect (CORE only)	✓	✓	✓	✓	✓	✓	✓
MD07	Debtor deceased	✓	✓	✓	✓	✓	Not used due to data protection restrictions; MS03 used instead	✓
RC01	Bank identifier incorrect	✓	✓	✓	✓	✓	✓	✓
RR01	Regulatory reason – missing debtor account or identification	✓	✓	✓	✓	✓	Not used due to data protection restrictions; MS03 used instead	✓
RR02	Regulatory reason – missing debtor name or address	✓	✓	✓	✓	✓	Not used due to data protection restrictions; MS03 used instead	✓
RR03	Regulatory reason – missing creditor name or address	✓	✓	✓	✓	✓	Not used due to data protection restrictions; MS03 used instead	✓
RR04	Regulatory reason	✓	✓	Not used, MS03 used instead	✓	✓	Not used due to data protection restrictions; MS03 used instead	✓

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 7 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.

| | | | 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	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	Some banks not using this code due to customer protection use MS03 instead	Use agreed by major Dutch banks from end of 09/14 at the latest	✓	Not used by several banks due to data protection; MS03 used instead	✓	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	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	✓	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	✓	✓	✓	✓	Less used based on general practice in SI	✓
✓	✓	✓	✓	✓	✓	✓

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

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

O 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 Proposed approach for optional information provision from creditor bank to creditor on SDD R-transaction type

Knowing whether an R-transaction is a reject or a return is valuable information for creditors, since it supports them in optimally managing their exception-handling. Among other things, this information is helpful input for the creditors sequencing logic: if the R-transaction is a reject, the creditor should send another „First transaction; if it is a return, the creditor should send a „Recurrent transaction.

Unfortunately, the message that the creditor bank sends to the creditor to report the R-transaction today does not directly specify whether the R-transaction was a reject or a return. Most reason codes can be used in case of both rejects and returns, which means that the reason code provided as part of the R-transaction does not allow the creditor to conclude if the R-transaction was sent before or after the settlement of the initial collection.

In many cases, creditors therefore base their conclusions on the message type that the creditor bank uses for reporting the R-transaction, since many banks or banking communities use different message types for reporting rejects (e.g. pain002) and returns (e.g. camt054).

However, there are no uniform practices in place for the use of the different reporting messages and some creditor banks have agreed with their creditors to only use one type of message for communicating both rejects and returns. In this case, creditors often have to rely on the timing of the reporting message to draw any conclusions on the R-transaction type. But exceptional circumstances impacting the settlement date may make it difficult for corporates to clearly determine whether a given R-transaction was a reject or a return.

4.1 Is there any standardised approach in place regarding the provision of additional information on R-transaction types to the creditor?

Several communities have implemented solutions that provide additional clarity to their creditors through the inclusion of extra information in the reporting message. However, these nationally agreed solutions differ from each other.

Therefore, a standardised pan-European approach for the provision of additional creditor information on R-transaction types as part of the bank-to-customer reporting flow between the creditor bank and the creditor would be helpful, in particular for those creditors operating in a multi-national environment: it would allow them to optimise the extraction and handling of this information in more than one community.

4.2 Recommendation on the provision of additional information on R-transaction types

The SMART participants recommend that creditor banks wishing to implement an optional solution where they provide information on the R-transaction type to their creditors should include the terms "Reject" or "Return" in the Additional Information Tag within the Return Information Tree of the camt052, camt053 or camt054 message to be sent to the creditor (depending on the messages used by the creditor bank in its reporting).

Creditor banks could provide this optional additional information in their camt message *instead or in addition* of any pain002 messages they may send, depending on their own processes and on their agreements with their creditors.

Return Information Tree:
inclusion of R-transaction type in the Additional Information Tag
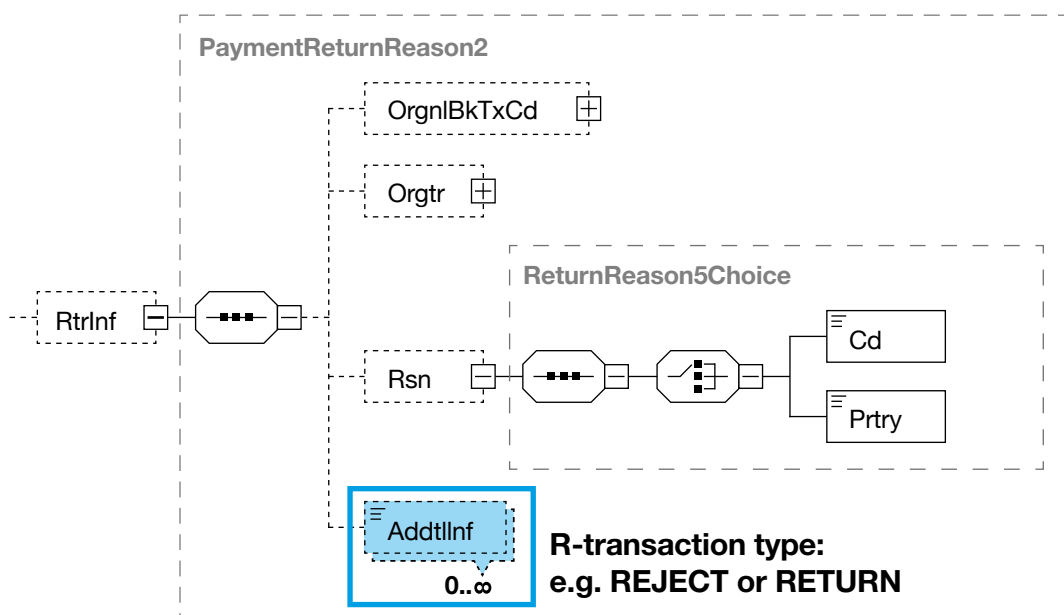
5 Considerations around the charging for R-transactions

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

The SEPA Regulation has introduced rules applying to the charging of fees for R-transactions since 1st February 2014. It is important to note that these rules in Art. 8(2)[4] 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)

R-transaction charging arrangements in selected Eurozone countries

Country	Multilateral R-transaction fee arrangement for SDD in place?	If no, do some banks charge for R-transactions based on a bilateral agreement or unilaterally?	Are any interbank fees applied to cross-border R-transactions?
Austria	No	Yes, some banks charge unilaterally in the interbank space	Dependent on individual banks' decision
Belgium	No	No	No
Cyprus	No	Under review	No
Finland	No	Dependent on individual banks' decision	Dependent on individual banks' decision
France Comment: A new MIF has been calculated for each type of SEPA R-messages; the fees are strictly cost-based in conformity with the SEPA Regulation.*	Yes. Multilateral R-transaction fee arrangement since 1st 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, Estonia, Malta and Slovakia. 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.

- 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.

5.2 What R-transaction charging arrangements are in place in the different European countries?

As detailed in the below table, no multilateral interchange fee arrangements for R-transactions are in place 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 may 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.

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

Country	Multilateral R-transaction fee arrangement for SDD since February 2014?	If no, do some banks charge for R-transactions based on a bilateral agreement or unilaterally?	Are any interbank fees 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	No	Decision-making still ongoing for Portuguese community. Limited number of banks are charging unilaterally.	Depends on the decision of individual banks
Slovenia	No	Depends on the decision of individual banks	Depends on the decision of individual banks
Spain	No	Depends on the decision of individual banks	Depends on the decision of individual banks

5.3 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.

Recommendations 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,[5] 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.

[5] For further details, see SDD Core Scheme Interbank Implementation Guidelines, v7.0, 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.

Annexes

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

- Regulation (EU) No 248/2014 of the European Parliament and of the Council of 26th February 2014 amending Regulation (EU) No 260/2012 as regards the migration to Union-wide credit transfers and direct debits

  http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:084:0001:0003:EN:PDF

- SEPA Core Direct Debit Scheme Rulebook of the European Payments Council, version 7.1 of January 2014 (EPC016-06)

  http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/sepa-direct-debit-core-rulebook-version-70/epc016-06-core-sdd-rb-v71-approvedpdf/

- SEPA Core Direct Debit Scheme Interbank Implementation Guidelines, version 7.0 of November 2012 (EPC114-06)

  http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/sepa-direct-debit-core-scheme-inter-bank-implementation-guidelines-version-70/epc114-06-sdd-core-interbank-ig-v70-approvedpdf/

- SEPA B2B Direct Debit Scheme Interbank Implementation Guidelines, version 5.0 of November 2012 (EPC315-10)

  http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/sepa-direct-debit-business-to-business-scheme-inter-bank-implementation-guidelines-version-50/epc301-07-sdd-b2b-interbank-ig-v50-approvedpdf/

- Errata to the 2014 Implementation Guidelines (EPC157-13)

  http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/errata-to-the-2014-implementation-guidelines/

- 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/LexUriServ.do?uri=OJ:L:2007:319:0001:0036:EN:PDF

- Guidance on Reason Codes for SEPA Direct Debit R-transactions (EPC173-14)

  http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/guidance-on-reason-codes-for-sepa-direct-debit-r-transactions/

- 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/index.cfm/knowledge-bank/epc-documents/clarification-paper-sepa-credit-transfer-and-sepa-direct-debit/epc348-12-v20-sct-and-sdd-clarification-paperpdf/

- 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 multilateral arrangement."

Annex 4

Conclusions from the SMART questionnaire on SDD R-transaction issues: Identified areas / topics of concern, agreed priorities and measures taken

Across Europe, financial institutions and their customers continue to witness issues and to raise concerns with regard to SEPA Direct Debit (SDD) R-transactions. In order to identify and collect information about the key issues experienced by banks, the SEPA Migration Action Round Table (SMART) sent out a questionnaire in early April 2014.

SMART received 35 individual replies from banks in 13 communities and two community responses, which were analysed with a view to looking into ways of addressing the most important R-transaction-related issues at hand at a pan-European level.

The present note gives an overview of the key areas and topics of concern identified with the help of this survey, lists the main priorities as agreed by the SMART participants in May 2014 and provides an update on the measures taken by SMART with regard to these issues over the summer.

1. Identified areas/topics of concern

• **Systemic issues around the rules / practices related to SDD R-transaction handling and the use of reason codes in particular:**

  • National legislation, e.g. data protection laws, or practices prevent banks from using more precise reason codes that could help creditors to understand and remedy the cause of the R-transaction – according to CSM figures of April and May 2014, over 40 percent of all R-transactions were rejected/returned with the reason code MS03 (Reason not specified)
  • Additionally, a number of banks expressed a need for additional or more granular reason codes in certain areas and for more clarity or consistency regarding the use of the existing reason codes
  • At the level of the debtor banks, many checks today seem to be carried out in the post-settlement phase rather than before settlement, which means they lead to returns rather than rejects and increase the burden on the creditor side.

• **R-transaction charging issues:**
  The lack of uniform charging practices around SDD R-transactions is one of the key issues raised by respondents. They expressed a particular concern about the charging of fees for R-transactions featuring MS03 (Reason not specified) as a reason code.

• **Issues around the SDD collection sequence:**
  Sequence type-related issues witnessed a decrease towards the end of the direct debit migration period, but a number of concerns seem to persist:

  • There appears to be a lack of clarity on one particular question: Which sequence type should be used for a collection if the preceding first SDD collection has been rejected or returned?
  • The use of reason code MD01 (No valid mandate or unauthorised transaction) or MD02 (Mandate data missing or incorrect) for sequence type error persists even though since 1st February 2014 the code to be used in this case is AG02 (Operation / transaction code incorrect, invalid format)
  • There seems to be a need for additional education of creditors, especially around the creation of mandates and sequencing topics
  • National sequencing particularities and implemented checks around these practices at bank level seem to lead to many erroneous R-transactions.

• **Issues around SDD Business-to-Business (B2B) collections:**
  There are several concerns raised around SDD B2B collections. The most pertinent issue is that many SDD B2B collections lead to R-transactions because the validation/confirmation by the debtor of the mandate for the transaction is not received by the debtor bank in time. There may be a need for additional rules or recommendations around this particular process.

• **Issues around the blocking of accounts to direct debits:**
  • There seems to be a lack of awareness among retail customers regarding the unblocking of their payment accounts for direct debits and the use of black/white list options
  • There seems to be a lack of clarity among banks as to which reason code should be used on which occasion, i.e. when AC06 (Account blocked or account blocked for DD by debtor) and SL01 (Specific service offered by the debtor bank) should be used.

• **Issues around special practices or reason code usage rules at national level:**
  Some communities seem to have special practices in place or have agreed on specific reason code usage rules that lead to confusion when applied in cross-border transactions.

• **Modification of interbank settlement date issue:**
  One important individual issue raised was the modification of the interbank settlement date of the original SDD collection by banks with the aim to ensure that an R-transaction takes place within the allowed timeframe. Most banks seem to have only witnessed isolated cases of such non-Scheme-Rulebook-compliant behaviour, which appear to have been triggered by technical problems at the level of the sending banks. However, this type of behaviour was seen as being extremely problematic as it undermines customer trust in the schemes.

2. List of priority items and overview of measures taken or planned

In May 2014, the SMART participants agreed on the following list of priority items, which they decided to look into more closely with a view to bringing additional clarity or guidance to the European payments community on these matters, for example through the formulation of best-practice recommendations:

• The use of MS03 and the charging of fees for R-transactions that contain this reason code

Measures taken: SMART continues monitoring and discussing statistics on the use of reason codes. In several communities, SMART participants have been driving or contributing to efforts geared at reducing the use of MS03. As a result, the use of MS03 for R-transactions channelled through EBA CLEARING's STEP2 platform dropped from 42 to 33 percent from April to June 2014.

In July 2014, SMART asked the Euro Retail Payments Board (ERPB) Working Group on SCT-SDD post-migration issues to draw attention to the legal restrictions in place in several countries that prevent banks from using more precise reason codes in a number of cases. This newly created working group had been calling for input on any issues that may be obstacles to full market integration for credit transfers and direct debits and added this topic to the agenda of its first meeting in August 2014.

• Sequencing issues:

  • The question on the sequence type to be used for a collection if the preceding first SDD collection has been rejected or returned
  • The use of reason codes to highlight sequencing errors

Measures taken: There was agreement among the SMART participants that the proposed EPC Scheme Rulebook change request, which will make optional the use of the sequence type "First", should remedy most of the remaining issues in this area. The group saw no major value in defining any interim practices geared at resolving the present sequencing issues during the period until the implementation of the EPC change requests.

Both the SMART R-transaction guide and the EPC reason code guidance document provide clarification on the use of reason codes in the communication of sequencing errors (see Annex 4, pp. 24–29).

• The running of checks in the pre- and post-settlement phase of an SDD collection

Measures taken: With participant input, SMART has started an analysis of statistics on pre- and post-settlement R-transactions. If the EPC approves the proposed change request to introduce the D-1 minimum submission deadline of the SDD COR1 option into the standard scheme, there may be value in studying the impact of this change on the use of pre-settlement R-transaction messages.

• Informing bank customers about SDD R-transaction causes

Measures taken: The present version of the SMART R-transaction guide contains a proposal for a standardised way for the creditor bank to specify to the creditor whether an SDD R-transaction is a reject or a return (see Chapter 4, pp. 10–11). The use of a uniform pan-European approach for this additional optional information provision is seen as being particularly helpful for creditors operating in a multi-national environment, since it would allow them to optimise the extraction and handling of this information in more than one community.

• Specific local practices hampering the processing of cross-border SDDs in particular, e.g. the default blocking of debtor accounts in certain communities

Measures taken: The present version of the SMART R-transaction guide includes an overview of specific local practices that certain communities apply in the context of issuing or handling SDD (R-)transactions (see Annex 6, pp. 22–23). While these local practices may not hamper the processing of cross-border SDDs per se, they may nevertheless have an impact on counterparties, which awareness of these practices may help to curb.

SMART will continue its work on these and other issues related to the findings of this R-transaction survey and further analysis conducted in this area.

Annex 5
National registers or documents on
SDD R-transaction requirements

The present table contains feedback on the
following question raised in the SDD R-trans-
action questionnaire: Is there a register or
list where R-transaction-related special require-
ments or practices are centrally collected at
national / local level?

Country	Belgium	France	Germany
Name of central register/ document(s)	"De Europese domiciliëring SEPA"/ "La domiciliation européenne SEPA"	"Liste interbancaire codes motifs de rejet / retour – Brochure destinée a la clientèle"	• "Abkommen über die SEPA-Inlandslastschrift" (interbank agreement) • "DFÜ-Abkommen, Anlage 3" (specifications for data transfer between customer and bank)
Name of body in charge of register/document(s)	Febelfin (Belgian Financial Sector Federation)	Comité Français d'Organi-sation et de Normalisation Bancaires (CFONB)	Deutsche Kreditwirtschaft (German banking industry's umbrella organisation)
Web link (if register/document publicly available)	Dutch version: http://www.sepabelgium. be/sites/default/files/files/ SDD-brochure-version-3-2-nov2013-nl_0.pdf French version: http://www.sepabelgium. be/sites/default/files/files/ SDD-brochure-version-3-2-nov%202013-fr.pdf	http://www.cfonb.org/ fichiers/ 20130612173212_8_2_ Brochure_clients_motifs_ rejet_retour_valide_ fev2013.pdf	• "Abkommen über die SEPA-Inlandslastschrift": not publicly available • "DFÜ-Abkommen": This document specifies which reason codes are to be used / not to be used for the data transfer between cus-tomer and bank in Germany based on the "Abkommen über die SEPA-Inlandslast-schrift". Relevant information can be found on pp. 123 – 125 (please note that the document takes a while to load due to its large size): http://www.ebics.de/ fileadmin/unsecured/ anlage3/anlage3_spec/ Anlage_3_ Datenformatstandards-V2.8_ Final.pdf

Ireland	Italy	Netherlands
"SEPA SDD Reason Codes March 2014 V1.1"	Recommendations and clarifying information are provided via circular letter by ABI where needed	"Reason/foutcodes Europese incasso"
Irish Payment Services Organisation (IPSO)	Associazione bancaria italiana (ABI – Italian banking association)	Betaalvereniging (Dutch Payments Association)
http://www.ipso.ie/x/File/ SEPA/SDD_Reason_Codes_ March_2014_V1.1.pdf	Not publicly available	http://www.betaalvereniging.nl/wp-uploads/2013/05/ Reason-foutcodes-Europese-incasso.pdf

Annex 6

Description of specific local practices in place in connection with SDD (R-)transactions

Country	Description of specific local practice	Community-wide usage or not
Germany and Portugal	Some German and Portuguese debtor banks do not send any reject on D if there are not enough available funds in the debtor account but generally send a return on the following day (D+1) if the debtor has not made the necessary funds available on his/her account by the end of the day on which they were due.	*This is not an officially agreed community practice and not applied by all banks in Germany and Portugal, but it is a rather common practice reflecting the market practice they used to apply under the former national direct debit scheme.*
Germany and Ireland	The reason code MD01 may be used by the debtor bank 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). 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). Accordingly, the use of MD01 will lead to a blocking of the mandate on the creditor side. [NB: 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.]	*Agreed community practice*
Ireland	As documented in the IPSO SDD Creditors Guide: SEPA Direct Debit Core Scheme [6] (page 13), Irish banks have maintained the existing timeline for returns (IRECC) and continue to return on D+1. This means that the banks use a shorter timeline than the five working days (D+5) allowed by the SEPA Direct Debit Core Rulebook.	*Agreed community practice*

[6] http://www.ipso.ie/x/File/SEPA/
SEPA%20Creditors%20Guide/
SEPA_Core_Direct_Debit_Scheme_
for_Creditors_Version_1.3.pdf

Country	Description of specific local practice	Community-wide usage or not
Netherlands	Banks in NL allow after the rejection of a First collection (MD01) that debtors "confirm" the mandate either via their online banking application or a paperbased registration form; following this confirmation, an incoming Recurrent collection would be accepted. This practice only applies for B2B DDs.	*Agreed community practice*
	The Dutch community agreed not to immediately reject a direct debit if the debtor has insufficient funds. Instead, the debtor banks checks the debtor account for availability of the necessary funds several times up to the requested collection date before it is returned on the following day with a reason code AM04 ("Insufficient funds").	*Agreed community practice*
Slovakia	The Slovakian banking community agreed at the level of the Slovakian banking association that all client accounts that were opened before the SEPA migration will automatically be blocked against direct debits after the SEPA migration; accordingly, the debtor has to actively unblock his/her account for incoming SDDs. For all accounts that will be opened now after the SEPA migration, the clients can decide to block their accounts against direct debits at the opening of the account.	*Agreed community practice*

Annex 7
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 v7.0 and B2B IGs v5.0	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

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
1. Incorrect IBAN provided by debtor on the mandate 2. IBAN incorrectly de-materialised from mandate 3. Incorrect conversion from BBAN to IBAN	The SMART participants recommend also using AC01 as standard reason code in case of a mismatch between IBAN and BIC. 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. This should therefore be the uniform code used for this type of problem (instead of RC01 – incorrect BIC). 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.
The debtor has closed this account	
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	NB: AC06 should be used only if accounts are blocked for incoming SDD collections in general. 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.
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).
1. The collection includes the sequence type *recurrent* but there has not been a previous collection featuring the sequence type *First* 2. The debtor bank receives a recurrent collection but the previous collection included the sequence type *Final* 3. An SMNDA is sent without the sequence type set to *First*	NB: This code has been in use for sequence type errors since 1st February 2014. It should be mainly used to specify that a transaction was out of sequence. Accordingly, 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 v7.0 and B2B IGs v5.0	Description
AM04 (Rj, Rt) Insufficient funds	There is not enough money in the debtor account to cover the incoming DD collection
AM05 (Rj, Rt, Rv) Duplicate collection	The debtor has received a DD collection that is identical to a previously received collection
BE05 (Rj, Rt) Identifier of the creditor incorrect	The creditor ID is incorrect or missing
FF01 (Rj) Operation / transaction code incorrect, invalid file format	There is an incorrect file format, an incorrect transaction code or a syntax error
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)
MD01 (Rj, Rfd, Rt) No valid mandate or unauthorised transaction	There is no valid mandate for the DD collection
MD02 (Rj) Mandate data missing or incorrect	There are missing or incorrect data in the mandate-related information (MRI) sent with the DD collection

Typical examples	Recommendation or comment
	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.
An IT issue at the level of the creditor or creditor bank has led to an accidental repeated sending of a transaction	
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	
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	
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	
There is no valid mandate, because e.g. 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	Until 1st February 2014, MD01 was also used to indicate that a RCUR instruction has been received and no FRST instruction is in place. Since that date, the preferred code for this type of wrong sequence issue should be AG02. 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). 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). 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.
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	This code is mostly used in cases where the mandate reference corresponds to a mandate stored at the debtor bank. 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. 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).

Reason code, R-transaction type and SEPA reason as specified in the EPC SDD Core IGs v7.0 and B2B IGs v5.0	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. NB: MS02 should only be used for a reject of a specific collection by the debtor, which does not affect the mandate
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

Barclays

BCEE Luxembourg

BNP Paribas

Citibank

Deutsche Bank

Helaba – Landesbank Hessen-Thüringen

Hellenic Bank

HSBC

J.P. Morgan

Lloyds Banking Group

Nordea Bank

Rabobank

SEB

Svenska Handelsbanken

Swedbank

The Royal Bank of Scotland

UniCredit Bank AG (HypoVereinsbank)

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.

To download this document, please go to
https://www.abe-eba.eu/E-books/SMART-R-transaction-Guide/