

Things to know about SEPA

General Information about SEPA

The Single Euro Payments Area (SEPA) stands for the European Union (EU) payments integration initiative. With the introduction of the Euro currency in 1999, the political drivers of the SEPA initiative - EU governments, the European Parliament, the European Commission and the European Central Bank (ECB) - have focused on the integration of the Euro payments market. Since then, the political drivers have called upon the payments industry to bolster the common currency, by developing a set of harmonised payment schemes and frameworks for electronic Euro payments.

Current national credit transfer and direct debit procedures will expire on 1 February 2014. Payment service providers in the Euro area will only be able to settle payments using SEPA procedures.

SEPA will enable customers to make non-cash Euro payments to anyone located anywhere in the area, using a single bank account and a single set of payment instruments. Domestic and cross-border payments can be carried out the same way.

With transition to SEPA and IBANs many businesses will be forced to change their accounting processes. This is not limited to the adjustment of payments. Therefore, transition to SEPA requires a methodical approach, including an impact analysis to be carried out as soon as possible.

Starting from 1 February 2014, banks will only be able to accept SEPA credit transfers and SEPA direct debits. Therefore it is important that you act now to check which actions you need to take before this date. For example, you may find out that you need to modify your accounting system. The required modifications depend on the type of accounting software you are using.

Until 1 February 2014 you can use your account number and bank code (BLZ) for your payments. Up to that date your account number and bank code will be automatically converted to the IBAN and BIC format and communicated to the receiving bank.

Card payments are not affected by the SEPA migration. The widespread electronic direct debit (ELV) can be used until 1 February 2016.

IBAN

Transition to a single uniform payment market for the Euro means that current accounts throughout Europe must be accessible in a uniform, simple manner. This is necessary so that in a few years' time there will no longer be any differences between domestic and cross-border Euro payments in Europe. Therefore, international bank account numbers (IBAN) must be used for Euro accounts throughout Europe.

The Structure of IBAN is the same for each country, but its length differs from country to country (in Germany it has 22 digits, whereas the Dutch IBAN has 18 digits). In general it consists of the country code, a control number, letters that identify the bank and digits consisting of the account number supplemented with zeros. You can find your IBAN on your debit card or your account statement. You can also contact our branches or use our IBAN Generator on our internet page.

BIC

By February 2014 a bank identification code (BIC) is also needed for the processing of payments between banks. BIC is the code that enables a bank to be identified. Each bank has its own code. İşbank AG's BIC is ISBKDEFX XXX (XXX differs for each branch). You can find the BIC of your branch on your account statement or contact you branch.

Payments at İşbank AG

Until 1 February 2014, during the transition phase, you can use both the account number and the bank code or IBAN and BIC for transfers from your checking account (Girokonto); we accept both variants.

As of 1 February 2014, all domestic transfers will be performed in the new SEPA format - the old account number and the bank code can no more be used.

Specific features of the SEPA Core Direct Debit (For directly debiting both private and business debtors)

From 1 February 2014, you will only be able to collect Euro payments from domestic and foreign customers within the SEPA area by means of the SEPA direct debit scheme. This new standard has a number of important consequences for your business accounting system.

- The Direct Debit submitter needs to have a creditor identification number (Gläubiger-Identifikationsnummer) (www.glaebiger-id.bundesbank.de).
- The SEPA Core Direct Debit Scheme replaces direct debit. The payee shall make an agreement on the collection of debts by SEPA direct debit with his bank.
- The Direct Debit submitter needs to have a mandate.
- The debtor authorizes the collection by SEPA Direct Debit through a mandate.
- The mandate reference is used in conjunction with the creditor ID for unique identification of the SEPA mandate.
- Existing direct debit orders can be used as a SEPA Core Direct Debit mandates. For existing direct debit mandates a submitter must only carry out the following complementary activities:
 - To request a creditor ID at the Deutsche Bundesbank.
 - To make an agreement with his bank on the collection of receivables through SEPA Core Direct Debit.
 - To give a mandate reference for each direct debit mandate and to integrate this into the customer master data.
 - To inform the payer in writing about the creditor ID, the mandate reference and the SEPA migration time before conducting the first SEPA Core Direct Debit. The information may be given by invoice, contract modification or separately.
- You are obliged to give your customer 14 days' notice before the due date for collection. You should in any event specify in the notice precisely what amount will be debited and when. For recurring direct debits with the same or fixed amount, one-time notification of the debtor before the first direct debit with the disclosure of the relevant due dates is sufficient.
- Specified deadlines for submission before the due date must be followed when submitting the SEPA Core Direct Debit (6 business days for one off/single debit and 3 business days for subsequent debits).
- A debtor's right for a refund for any reason is within 8 weeks after exposure.
- If a booking occurs without valid SEPA Direct Debit Mandate, the refund claim of the debtor is up to 13 months after the booking
- Returns must be made by the debtor's bank (eg lack of funds) at most in 5 days (TARGET days) after the due date.

Specific features of the SEPA B2B Direct Debit

- The SEPA Business to Business Direct Debit replaced the old direct debit scheme (Abbuchungslastschrift).
- The Direct Debit submitter needs to have a creditor identification number (Gläubiger-Identifikationsnummer). (www.glaeubiger-id.bundesbank.de)
- The Direct Debit submitter needs to have a mandate.
- The debtor authorizes the collection by SEPA Direct Debit through a mandate.
- Before a scheduled collection the payee is required to make a pre-notification to the payer within no later than 14 calendar days before maturity.
- Specified deadlines for submission before the due date must be followed when submitting the SEPA B2B Direct Debit (2 business days).
 - Consumers are not allowed as debtor.
 - The debtor gives up his claim for reimbursement. Return due to objection is not possible.
 - An agreement on the collection of debts by SEPA Business to Business Direct Debit for the use of SEPA Business to Business Direct Debit with his bank has to be made.
 - The debtor must confirm the mandate in his bank before the first redemption.
- For existing debit orders new mandates are needed. Existing debit orders can not be used for the collection of SEPA B2B direct debits.
- Returns must be made by the debtor's bank (eg lack of funds) at most in 2 days (TARGET days) after the due date.

More information is available on the website www.sepadeutschland.de.

Recommendations for our clients

The extent of the changes by SEPA is comparable to the introduction of the Euro and even goes beyond that. We recommend you to analyze all relevant business areas and to meet the basic strategic decisions if this is not already done. You can find here a selection of recommendations and questions for you.

Organisation and Structure:

The analysis of the organization and structure should include not only the structure / organization of your company but also the structure of the accounts / account relationships and interactions with trading partners. We recommend you

- to appoint a SEPA officer and, if possible, initiate a project.
- to ask the IBAN and BIC of suppliers / debtors and to put those in your system. So-called IBAN calculators on the Internet are not recommended. Although they allow the determination of a mathematically correct IBAN, they do not necessarily give accurate results.
- to exchange information with trading partners on SEPA and to identify its impact on the daily operations of financial transactions.
- to consider following points about structural and process changes in financial management:
 - Where does the data creation take place in the future?
 - Can uniform formats be used instead of local formats?
 - Are uniform handling processes and uniform documentation of the payment processes required (SOX-relevant)?
 - Only incoming payments from abroad to local accounts?
 - Are currencies or run-time gains or losses or execution periods in danger or is there potential for optimization (especially with regard to foreign countries)?
 - Is the processing of Europe-payments, for example, centrally from Germany, possible or useful?
 - Is with SEPA and for example with a concentration of payments from Germany, a reduction in bank accounts useful and what impact they would have on the consolidated agreements / arrangements (e.g. pooling of accounts)?

Immediately

- Set up a project - if not already started
- Analyse present IT systems
- Complete invoices, forms, contracts and entry screens with IBAN / BIC
- Organization and processes (audits)
- Apply for creditor identification number

Until the end of 2013

- Add IBAN and BIC to master data
- Submission of all EU standard payments in SEPA format
- Set a system for management of mandates
- Define process changes for the SEPA Direct Debit entries incl. pre-notification
- Integrate SEPA mandates in the existing contractual agreements
- Test migration of debit authorizations

Analysis of the systems

In the analysis of the systems databases, treasury systems and of course e-banking software of your company are in focus.

- In which databases and systems are SEPA data elements to be implemented?
- Capability in Enterprise Resource Planning and treasury system - is the XML capability given?
- Plan required Software Releases - contact with your software vendors
- Does the software meet the new requirements?
- Parallel operation of old national procedures and the SEPA schemes?

Review of procedures and processes

An examination of the procedures and processes comprise both internal processes and the payment instruments used for it.

- Which internal working processes are especially affected with regard to the SEPA Direct Debit (Direct Debit Core and B2B) (e.g., mandate management, customer orders, customer contracts, invoices, reminders, correspondence with accounts data reference)?
- Debitor-/Creditormanagement: What changes must be adapted?
- Which payment instruments are currently used in other European countries and at what cost? When will these be possibly transformed? Can costs be reduced by switching to a SEPA product?
- How / where / by whom will the administration of the mandate be carried out?
- Parallel use of old methods and the SEPA schemes. Are these to be considered in the processes?
- What is the workflow for handling returns / cancellations in back office divisions (soon there will be six different return procedures for SEPA Direct Debits)?

Until 2013

- Successive conversion of domestic money transfers to SEPA
- Pre-Notification
- Submit first pilot direct debits
- Procedures for debit orders
- Employee-customer communication

Until the end of 2013

- Conversion of domestic direct debits to SEPA
- Optimize returns processes
- Prepare End Date transitions

February 1st 2014

- Deadline for national formats
- Switching off national domestic payment transactions

Start of the new payment system