SEPA Compliance for U.S. Corporations
Waiting Is No Longer an Option
On February 1, 2014, the new Single Euro Payments Area (SEPA) Migration End-Date Regulation EC 260/2012 takes effect and will finally change the eurozone’s entire payments and collections landscape.

It requires all euro next-day-payments and collections to flow through SEPA, an integrated European ACH system designed to make sending and receiving euro payments more efficient. The legislation has important implications for U.S. multinational corporations that use one or more of today’s in-country localized ACH systems in 17 euro countries.

With the deadline fast approaching, it is time for corporations to take action. They should assess their current technology to determine whether it can support the SEPA format. They should also identify SEPA-compliant banking partners and update their suppliers’ information to include the enriched account data SEPA requires. Forward-looking corporations are using SEPA as a springboard to reexamine the entire payments process and adopt the new technologies and processes that help control costs, improve transparency and boost efficiency.
Many companies are rethinking their broader euro payment processes and are adopting new technologies and approaches that lower costs, improve transparency and boost efficiency.

**Q: What is SEPA and what is the specific timetable for SEPA Migration?**

**A:** SEPA was launched in 2008 to make payments in Europe faster, more reliable and more efficient. It standardizes all next day euro payments around a single, all-electronic, straight-through processing system. As a result, the new migration regulation decommissions the 17 existing national payment systems and creates a single, European-wide ACH system for euro transfers.

In February 2012, the European Parliament and the European Commission set the date for compliance with the core provisions of the SEPA Regulation as February 1, 2014, after which banks will no longer transfer non-compliant euro payments to the clearinghouse. In non-euro Member States, the deadline will be October 31, 2016. All businesses that want to make euro ACH payments within Europe are required to use the SEPA-compliant format.

**Q: What kinds of payments will move through the SEPA system?**

**A:** SEPA Migration End-Date Regulation applies to all “non-urgent” payments—euro accounts payables and accounts receivables transactions as well as euro salary and euro tax payments within Europe. Wire transfers, which are “urgent” transactions settled on a same-day basis, can continue to pass through the existing wire systems (TARGET2 or EURO1), which were launched in 1999 with the introduction of the euro.

**Q: How is the new SEPA system different from today’s localized legacy systems?**

**A:** With SEPA, consumers, businesses and institutions will be able to make cashless payments throughout the euro area as quickly, safely and easily as they make national payments today. SEPA replaces a network of 17 country-specific ACH systems that required corporations to maintain separate accounts for every country they serve. With SEPA, one single account per legal entity will be sufficient, as all euro ACH payments will flow through a single system of identical, all-electronic processing conditions. Further, every payment must be “enriched” to include the entity’s International Bank Account Number (IBAN) and the correlating SWIFT BIC, a worldwide unique ID for every bank. Because of its check-digit feature, the IBAN helps streamline payment processing and eliminates errors in account numbers during capturing that consequently lead to erroneous or rejected payments.

**ABOUT THE AUTHOR**  Lars Schwabe, Executive Director and Global Solutions Sales Expert, is applying more than 20 years of banking experience to help J.P. Morgan and its clients thrive in the new SEPA environment. He was responsible for building J.P. Morgan’s European EUR clearing strategy following the launch of SEPA in 2008. Today, he consults with U.S.-based sales colleagues and their clients on SEPA migration. He is a member of EBA Clearing’s Innovations Committee and speaks frequently at banking conferences. He recently shared his perspective on SEPA and its many implications for corporations doing business in the eurozone.
J.P. Morgan meets with SEPA compliance project teams to help them understand the variables involved, suggest best practices for SEPA conversion and identify opportunities to establish more efficient processes.

Q: What does this new SEPA migration deadline mean for U.S. multinational corporations?
A: The SEPA migration deadline means that U.S. corporations can no longer take a “wait and see” approach to compliance. They should act now to understand the many opportunities SEPA provides, create a strategy for SEPA migration and ensure their new payments process is compliant and operating reliably well before the deadline.

Corporations that fail to comply will face several risks. Most important, the legacy systems they use today for euro A/P, A/R, tax and payroll transactions will no longer work. Because banks will be unable to process non-compliant payments via the SEPA channel, corporations could miss payment dates. As a result, corporations will be forced to either make these payments via wires at a premium cost, or pay a third-party service provider to make their transactions SEPA compliant. This semi-manual process could in turn expose corporations to greater risk of payment errors.

Q: How will U.S. corporations benefit from the SEPA system?
A: Today, many U.S. corporations avoid making ACH payments in Europe because they find the current system too complex. Those who do participate tend to manage multiple bank accounts with numerous banking relationships, formats and cut-off times. SEPA creates easy access to a streamlined system that gives multinational corporations much greater flexibility to serve new customers in new markets. SEPA allows corporations to consolidate banking relationships and benefit from lower costs, more efficient and faster payments transfers when moving euro from one country to another.

The International Bank Account Number (IBAN) with incorporated check algorithms also gives corporations a new tool to eliminate costly payment errors. SEPA-compliant transactions require IBAN and the correlating BIC. At the time of payment, corporations can ensure that no single character has been omitted, duplicated, mistyped or transposed with another character.

As companies develop their compliance strategies, many are also rethinking their broader euro payment processes and are adopting new technologies and approaches that help them lower costs, improve transparency and boost efficiency. By eliminating direct credits or paper checks and migrating more payments to direct debit, many companies are reducing their reconciliation efforts significantly and are redeploying full-time employees after eliminating manual A/R processes. Forward thinking corporations have anticipated requirements to become ISO 20022 XML compliant, which gives them greater flexibility to exchange detailed transaction information with business partners.

35.6 percent\(^1\) of all euro payments are already processed in the SEPA-compliant format.

\(^1\) Source: European Central Bank
Q: Does it make sense to change banking partners now, during the SEPA migration process, or wait until the migration is complete?

A: SEPA compliance creates a host of challenges for banks as well as corporates, and banks are taking different paths towards full migration. For example, some banks have taken a patchwork approach while others have invested in entirely new platforms. This disparity makes it critical to evaluate each bank’s true SEPA capabilities. Because SEPA compliance usually means closing accounts and consolidating banking relationships, this is the ideal time to select a banking partner that is fully invested in SEPA. It provides the perfect opportunity to look for banks that have the scale and footprint to support entities throughout the eurozone and the experience to help develop and implement successful SEPA migration strategies.

Best Practices for SEPA Compliance

Corporations have been migrating to SEPA since the system was launched in 2008. As of January 2013, 35.6 percent of all euro payments are already processed in the SEPA-compliant format. J. P. Morgan recommends the following best practices based on the experiences of corporations that have successfully completed the process.

• Convene a compliance steering committee consisting of the corporate Treasurer, managers of accounts receivable and accounts payable, and representatives from HR and IT departments.
• Appoint a project manager who can be largely or completely dedicated to this effort.
• Hold an initial meeting with a primary banking partner that understands the complex issues surrounding SEPA compliance.
• Perform a technical analysis of current ERP and Treasury systems plus planned upgrades and assess their ability to process extended account numbers.
• Weigh the benefits of upgrading to an enterprise platform that supports end-to-end processing in ISO 20022 XML.
• Determine a budget and timetable for full SEPA compliance and submit the budget for approval.
• Consider other process improvements to streamline the accounts receivables and accounts payables functions.
• Evaluate your current network of banking partners and develop a plan to rationalize bank accounts and consolidate banking relationships.
• Identify an experienced service partner to clean and enrich your legacy data so that it complies with the SEPA format.
• Develop a testing and implementation plan and begin the migration process now, avoiding costly last-minute SEPA compliance activities during year end 2013.
**It’s critical to view SEPA migration within the broader contexts of IT investments, European growth strategies, Shared Service Center opportunities and Treasury operations.***

**Q: When should U.S. corporations begin to move toward SEPA compliance?**

**A:**** With the euro area deadline only a few months away, companies must assess immediately how the change will impact their Treasury, A/P, A/R and IT operations and determine the steps necessary to achieve full compliance.

The timetable for completing the process will differ for each corporation, depending in part on the number of legal entities a corporation has in Europe and the IT infrastructure used to track orders and payments. For example, smaller companies with up to five legal entities, operating in up to five European countries, may be able to achieve compliance within three months. In contrast, multinational companies with 20 or more legal entities and operations across the eurozone may require a year or 18 months to complete the process. These corporations often rely on multiple releases of ERP systems that must be modified to accommodate IBAN, BIC and some additional information for direct debits mandated by SEPA. By starting early, companies can understand how much a phased SEPA conversion will cost, so they can establish budgets, get approvals and allocate sufficient human resources to the project.

**Q: What role can J.P. Morgan play in supporting both the SEPA migration process and euro payments in the SEPA environment?**

**A:**** J.P. Morgan is committed to helping clients achieve full SEPA compliance—and to making the migration process run as smoothly as possible. J.P. Morgan’s SEPA SWITCH Service simplifies IBAN and XML conversion and management of your direct debit mandates. As part of the service, our experts take your legacy account data, checking it against databases for accuracy and pulling in additional data as required, and send you back clean, enriched and SEPA-compliant account data. Also, for a limited time, we are offering clients “on-the-fly” conversion of their non-compliant legacy payment instructions into a SEPA compliant format.

J.P. Morgan made the strategic decision to invest in SEPA in 2006. We replaced our IT infrastructure with one that is not only SEPA compliant where required, but that also supports end-to-end processes in ISO 20022 XML. This capability gives clients the flexibility to send and receive additional messaging in their payment transactions that provides their enterprise systems with valuable data. Our state-of-the-art infrastructure, plus our global footprint and strong presence throughout the eurozone, make J.P. Morgan an attractive Treasury provider for corporations ready to consolidate their eurozone banking relationships.

**Q: What advice can you offer U.S.-based corporations that will make the SEPA migration process smoother and easier? And what should they avoid?**

**A:**** In our experience, most problems and delays arise when companies exclude important stakeholders from the process and underestimate the time and budget required to complete the project. For example, it’s critical to view SEPA migration within the broader contexts of IT investments, European growth strategies, Shared Service Center opportunities and Treasury operations. That way, the specific compliance solution will serve the corporation’s broader needs and objectives. In these times of constrained capital and human resources, it is important to address the budget and personnel requirements up front.

**U.S. corporations can no longer take a “wait and see” approach to compliance. They should act now.**
Choosing the Right SEPA Migration Partner

The partner you choose and the approach you take to achieving SEPA compliance does matter. Get it wrong, and you could open the door to greater expense, less-than-ideal operational efficiency gains and strained supplier relations – all of which could help your competitors take advantage of your situation.

Aim higher with J.P. Morgan to not only achieve compliance, but to re-engineer your European treasury toward greater centralization worldwide. Doing so puts you in an ideal position to lower operational cost, increase efficiencies, earn greater returns on your liquidity, and reduce counterparty risk.

If your goals are to achieve SEPA compliance plus optimize your European cash management structures, we encourage you consider the following factors.

- **Cost**: Look to J.P. Morgan’s SEPA experts to help you manage the conversion process and begin reducing costs now. Our SEPA SWITCH Service is a one-stop-shop solution to handle your IBAN and XML conversion and manage your direct debit mandates.

- **Efficiency**: By simply opening a J.P. Morgan euro account, you will improve days payable outstanding (DPO) by up to one value day, as only our solution is providing industry-leading clearing times resulting in enhanced float for your organization.

- **Liquidity**: If your goals are to achieve greater control over balances and greater flexibility in how you use your cash, J.P. Morgan’s centralized multicurrency account solutions in combination with multi-entity multicurrency pooling solutions offer the flexibility you need. J.P. Morgan also offers tools to help you enhance yield on excess cash, efficiently deploy excess balances across your organization, and use excess balances to lower banking fees on a global basis.

- **Counterparty risk**: Let J.P. Morgan help you improve the overall risk profile of your banking counterparties by greatly reducing the number of bank relationships you manage, including weaker institutions impacted by recent market events in Europe. Implementing rationalized, centralized accounts with J.P. Morgan not only helps you reduce costs, but sets the stage for your new best-in-class centralized cash and liquidity structure. Let J.P. Morgan deliver your re-engineered global cash management vision by rationalizing your bank relationships, consolidating accounts, achieving fee consistency, standardizing and automating processes, and providing access to online liquidity and receivables solutions.

As a result, you will gain greater visibility and control of liquidity with more opportunity for investment yield, improved risk management and significant cost savings.