GOCARDLESS

SEPA
Direct Debit

An introduction to Direct Debit in the Eurozone

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Chapter 1 — What is SEPA Direct Debit?

What is SEPA?

The Single Euro Payments Area (SEPA) is an EU initiative to harmonise payments across the Eurozone.

The Single Euro Payments Area (SEPA) is a European Union (EU) initiative to harmonise payments across the Eurozone. Its goal is to make European payments as easy and cheap as domestic ones by creating a single market for euro-denominated payments.

To achieve this, the European Payments Council (EPC) has created three SEPA schemes. Each scheme is a set of interbank "rules, practices and standards" that defines a payment instrument:

• SEPA Direct Debit (SDD)

• SEPA Credit Transfer (SCT)

• SEPA Cards Framework (SCF)

Which countries are part of SEPA?

SEPA consists of the 28 EU member states (europa.eu/about-eu/countries/index_en.htm) together with the four members of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland). Monaco and San Marino are also part of SEPA.
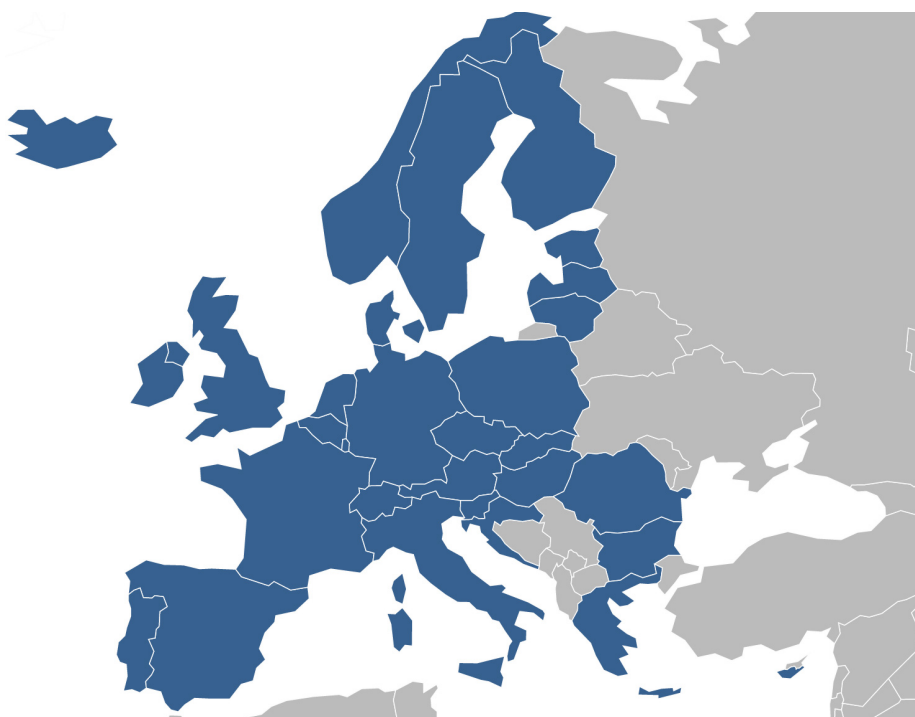
SEPA is only used for euro-denominated payments. For this reason, the percentage of customers reachable by SEPA varies on a country-by-country basis.

Eurozone countries

In Eurozone countries, all bank accounts that were previously reachable through a national scheme are now reachable via the SEPA payment schemes:

- Austria
- Belgium
- Cyprus
- Estonia
- Finland[1]
- France[2]
- Germany
- Greece
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Monaco[3]
- Netherlands
- Portugal[4]
- San Marino[3]
- Slovakia
- Slovenia
- Spain[5]

1. Including Aland Islands
2. Including French Guiana, Guadeloupe, Martinique, Mayotte, Saint Barthélemy, Saint Martin (French part), Réunion and Saint Pierre and Miquelon
3. Monaco and San Marino have bilateral agreements with the EU to use the euro as their official currency.
4. Including Azores and Madeira
5. Including Canary Islands and Ceuta en Melilla

Non-Eurozone countries

In non-eurozone countries, the SEPA schemes are only used for euro-denominated payments. Reachability is only required for euro-denominated bank accounts. For payments made in the local currency, national schemes should continue to be used.

- Bulgaria
- Croatia
- Czech Republic
- Denmark
- Hungary
- Iceland
- Liechtenstein
- Norway
- Poland
- Romania
- Sweden
- Switzerland
- United Kingdom[6]

6. Including Gibraltar

SEPA and GoCardless

GoCardless is the online Direct Debit specialist. Merchants can collect and manage their SEPA Direct Debit payments using our online dashboard or simple REST API.

Alongside providing support for SEPA Direct Debit, GoCardless provides access to the UK's national Direct Debit scheme (gocardless.com/direct-debit/) and the Swedish scheme (gocardless.com/guides/bg-autogiro/), with other national schemes coming soon including Norway and Australia.

To find out more about collecting Direct Debit payments across Europe, or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

How to make the switch to SEPA Direct Debit

Merchants within the Euro area may hold existing Euro-denominated Direct Debit mandates under their domestic legacy Direct Debit schemes.

For example, a French merchant may hold domestic Direct Debit mandates under the French legacy Direct Debit scheme. For the core SEPA scheme, these mandates remain valid but need to be compliant with the latest SEPA Direct Debit rules. For the B2B scheme, new mandates will need to be set up.

This guide will explain the steps you should take to migrate existing Euro-denominated mandates to SEPA Direct Debit - B2B or core scheme. If you would like to use this as an opportunity to switch Direct Debit providers you may also find our guide to transferring mandates helpful.

What will happen to existing Euro Direct Debit mandates?

Core scheme

Existing Euro Direct Debit mandates remain valid under the SEPA Core Direct Debit Scheme. Existing refund conditions also apply.

Mandates will not need to be signed again, provided they are updated with the following additional
details required by SEPA:

- The Creditor Identifier

- The Unique Mandate Reference

- The payer's IBAN and BIC

- A signature date

- A statement explaining that it is a SEPA mandate

- A statement from the payer authorising his bank and the payee to withdraw money from his or her account

To make these updates, incorporate the above details in your Direct Debit electronic records. These details will then need to be included with the mandate-related data in the next, and each subsequent, payment request. No modification of the physical mandate is required.

All mandates together with any modifications or cancellations must be stored by the merchant or a contracted third party.

B2B scheme

To migrate existing Euro Direct Debit mandates to the SEPA B2B Direct Debit Scheme new mandates will need to be completed. This is due to the absence of refund rights under the B2B scheme. The new mandate will need to comply with the SEPA mandate rules. It will need to explicitly state that the payer waives his right to a refund for authorised collections.

Migration with GoCardless

All new Euro-denominated Direct Debits set up with GoCardless are SEPA compliant.

If you are a merchant and would like to use this opportunity to switch to GoCardless as your SEPA Direct Debit provider see our guide to Transferring Mandates (gocardless.com/guides/sepa/transferring-mandates/).

What should you use SEPA Direct Debit for?

Similarly to UK Direct Debit, the level of control that SEPA Direct Debit gives merchants, makes it ideal for collecting recurring payments.

Unlike UK Direct Debit, SEPA Direct Debit allows you to collect payments in 21 Eurozone countries. This guide will look at the kind of businesses SEPA Direct Debit is great for and considers how it benefits those businesses. It will also summarise the types of transactions that it isn't great for, to help you to decide whether it is suitable for you.

SEPA Direct Debit is great for...

Collecting regular payments such as subscriptions. For companies collecting regular payments such as membership or subscription organisations, SEPA Direct Debit has three important advantages:

1. **Control** – Using SEPA Direct Debit enables merchants to ensure that customers will pay their bills on time every month.

2. **Retention rates** – Using SEPA Direct Debit eliminates failed payments due to card expiry or cancellation. It also increases customer loyalty by offering a convenient 'set it and forget i'" payment method.

3. **Reduced admin** – Using SEPA Direct Debit reduces the admin time involved in chasing and inputting updates to card details.

Invoicing for services where instant payment is not required. An example would be marketing agencies or accountants. SEPA Direct Debit is great for B2B invoicing for three important reasons:

1. **Improved cash flow** – Using SEPA Direct Debit puts control back into the merchant's hands. Merchants are able to collect payments when they want. This provides greater control over cash flow.

2. **Variable amounts can be easily collected** – Using SEPA Direct Debit enables merchants to collect variable amounts using a single upfront authorisation. As and when the payment amount changes, merchants are able to automatically claim the new amount. This differs from a standing order where customers need to give their bank new instructions each time a change is needed.

3. **Reduced admin and credit chasing** – Using SEPA Direct Debit reduces the time and manual effort required by chasing late payments and reconciling payments. It also reduces average debtor days without requiring awkward conversations about money with customers.

Account customers with an on-going relationship with the merchant. A good example would be wholesalers. Using SEPA Direct Debit to collect payments from account, or on-going customers works well for the same reasons as invoices (above). It also provides two additional key benefits to your customers:

1. **Simple payment method for customers** – It automates the collection process and enables customers to simplify the way they pay.

2. **Allows a flexible payment option** – SEPA Direct Debit allows ongoing customers the option of spreading costs and paying on account.

Markets with low card use such as Germany and the Netherlands, where credit card penetration is lower than 50%. Paying by bank account through SEPA Direct Debit is the preferred way to pay in these countries. Similarly, in industries or markets where usage of corporate cards is low, B2B customers will prefer to pay by bank account.

SEPA Direct Debit isn't so good for...

Transactions which need immediate clearing. SEPA Direct Debit payments are not instant, even under the faster B2B scheme – see our guide to timings for more information.

Transactions that are likely to be charged back, including liquid assets and high value goods. The SEPA Core Direct Debit no-questions-asked refund policy makes chargebacks easy in the initial eight weeks following the payment. This is a lower risk than with UK Direct Debit where chargeback periods were subject to no time limits.

SEPA Direct Debit payments through GoCardless

Our simple online interface and API make it cheap and easy to access and use SEPA Direct Debit. Businesses use us for a range of things, including regular billing, instalments and subscription payments. Our customers include:

• SaaS companies

• Subscription companies

• B2B or B2SME companies

• Telecoms companies

• Professional services organisations such as accountancy firms

- Web hosting companies

- Lending businesses

- Marketing agencies

- Insurance companies

- Membership organisations

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Chapter 2 – Getting access to SEPA Direct Debit

How to get access to SEPA Direct Debit

This guide briefly outlines how to set up SEPA Direct Debit and all the available options.

There are four options available for merchants wishing to set up SEPA Direct Debit:

1. **Direct access**

2. **Bureaus**

3. **Payment Service Providers (PSPs)**

4. **GoCardless**

Direct access

A merchant may wish to manage SEPA Direct Debit collection in-house. To do this a merchant will need to set up a Creditor Identifier with a preferred bank. For details on getting a Creditor Identifier please see our guide to Creditor Identifiers.

Once granted a Creditor Identifier the merchant will need to ensure that its systems and processes are SEPA compliant. For further details on what this will involve see our guide to getting ready for SEPA. The organisation will also need to ensure that it has the technical expertise in-house to collect, store, submit payment information correctly, and correctly interpret messages from banks. This may require staff hiring and training.

Setting up direct access to SEPA Direct Debit with your bank may involve a time consuming and expensive initial set up. Nevertheless, for large companies with a high volume of payments, the low transaction fees associated with direct access may outweigh the initial set up and overhead challenges and costs.

Submitting indirectly

If you would prefer for someone else to manage the complexities of collecting SEPA Direct Debit, you can outsource to a third party, such as a Direct Debit bureau. GoCardless can set up and manage SEPA Direct Debit collections on your behalf.

Direct Debit bureaus

There are a handful of UK Direct Debit bureaus that support SEPA - most through partnerships with local European providers. GoCardless is an online SEPA Direct Debit specialist.

Payment Service Providers

Payment Service Providers (PSPs) are generalists who aggregate many different payment methods available in different countries. Some PSPs include SEPA Direct Debit as part of their offering, such as Adyen. PSPs are a great way to do multiple payment methods (cards, direct debit, local payment instruments) in one go. As they have a large offering, implementation of their solution often takes a significant investment upfront.

GoCardless

GoCardless is an online SEPA Direct Debit specialist that manages the entire collection process on your behalf. Merchants can manage their payments using an online dashboard or can integrate with our REST API.

GoCardless merchants do not need to update their systems to XML message formats and IBAN/BIC account details. GoCardless will collect IBAN or local bank details directly from your customers, automatically select the correct BIC and will submit, receive, interpret and action bank messages for you. All payment statuses are available in real-time in our dashboard or via our API. See our guides to getting ready for SEPA and submitting and receiving messages

Your customer can set up SEPA Direct Debit payments to you online using your own online mandate form or GoCardless's pages. You can view an example of the online form for customers to complete (see here) (gocardless.com/example-checkout/) and of a SEPA compliant mandate (see here) (gocardless.com/guides/sepa/mandates/). As soon as a mandate is in place you can automatically collect one-off or recurring payments from that customer.

Our pricing is simple and transparent (see it here) (gocardless.com/pricing/). There are no set-up charges or hidden fees.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

What is a Creditor Identifier?

A merchant must have a Creditor Identifier to collect SEPA Direct Debit from payers. A Creditor Identifier is a unique reference which identifies each SEPA Direct Debit originator. If you are familiar with domestic UK Direct Debit, it is the equivalent of a Service User Number (SUN).

This guide explains what a Creditor Identifier is and how to get one. You may also want to read our guide to getting access to SEPA Direct Debit

What is a Creditor Identifier?

A Creditor Identifier is a unique reference for organisations collecting payments by SEPA Direct Debit. It must be included in each SEPA Direct Debit collection and allows the payer and the payer's bank to:

- **Verify** each SEPA Direct Debit

- **Request** refunds or make complaints

- **Check** the existence of a mandate when a payment is requested

Merchants can also use a "Creditor Business Code" extension to identify different business activities. This code allows a merchant to identify different business lines or different services. It is not needed to identify a mandate in a unique way, but contains useful information for the merchant and for the customer.

Getting a SEPA Creditor Identifier

You can get a SEPA Creditor Identifier in one of two ways:

1. Via your preferred bank

Contact your bank to start the process. They will be responsible for its generation. You may need to meet certain criteria set by the bank (similarly to with SUNs). It is likely that banks will look for the following key requirements:

- **Management expertise** to enforce the SEPA Direct Debit scheme rules, minimise submission errors, and maintain the reputation of the scheme.

- **Financial reserves** to refund any chargebacks. Under the UK Direct Debit scheme, these reserves must be placed in a surety bond.

- **Contractual capacity** to indemnify the bank against any payments charged back.

2. Via GoCardless

GoCardless enables you to use our master Creditor Identifier to collect from your customers, or to use a Creditor Identifier in your name. This Creditor Identifier can then be used in any SEPA country for any scheme and whichever bank you collect through.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

How to get ready for SEPA

Once you have been granted a <u>Creditor Identifier</u> (gocardless.com/guides/sepa/creditor-identifiers/) you will need to make two significant changes to transition to SEPA Direct Debit.

These two changes are:

1. The conversion to IBAN and BIC codes.

2. The conversion to XML format for exchanging messages.

This guide will walk you through these two key steps in becoming SEPA compliant.

The use of IBAN and BIC codes

When payments are made, an account identifier is required to ensure that the payment gets to the correct beneficiary. For SEPA Direct Debits this account identifier must be the International Bank Account Number (IBAN). Until SEPA, Direct Debit collections have generally used the national bank code and bank account number (BBAN details). IBAN is a way of showing these existing bank account details in an internationally recognised and standardised format. Changing to IBAN and BIC information is therefore a vital part of becoming SEPA compliant.

To transition to using IBAN and BIC follow these three simple steps:

1. **Review current invoicing and accounting procedures** and update any systems operating on the basis of account numbers and bank codes. You will need to find out whether your current payments systems can capture and handle IBAN and BIC formats. You can then decide whether to:

    - **Modify** your existing systems to capture and validate IBAN and BIC going forwards.
    - **Continue capturing BBAN details** and convert this data into IBAN and BIC retrospectively.

2. **Consider how you will retrieve BIC/IBAN information**. This could either be done yourself or via a reliable vendor. You may also wish to clean or validate your databases to ensure all customer BIC/IBAN information is correct. This will help to avoid failed payments due to bad/out of date customer information. This can be done using a <u>modulus checker</u> (gocardless.com/guides/posts/modulus-checking/) or a provider who uses one.

3. **Provide easily accessible information on your own IBAN and BIC**. For example, update invoices, stationery and other documents to reflect the correct BIC and IBAN information.

Retrieving BIC/IBAN information

Manual adjustment, transaction by transaction

Merchants may choose to manually collect their customers' IBAN and BIC information. They would need to contact each customer directly to obtain accurate, updated account details and then manually update their databases. These details could then be checked via an online tool.

Alternatively, merchants could choose to use automated tools offered online to provide the data. There are numerous online tools available to assist in the creation of IBANs although these do not necessarily validate the domestic details used to create the IBAN or guarantee its legitimacy.

Using a third party vendor

Fully automated solutions are embedded within corporate and bank business systems and websites. These are able to automatically create local IBANs and undertake modulus checking to validate the integrity of the data supplied.

The conversion to XML format for exchanging messages

SEPA Direct Debit file formats are based on the ISO 20022 XML format. Currently, message formats vary from country to country.

In the UK, Direct Debit is supported by the domestic clearing house Bacs, which works with a flat file format. This file format does not support Euro-denominated payments. The use of the ISO 20022 XML message standard is now mandatory for Euro-denominated Direct Debits collected by businesses with more than ten staff members and a turnover or a balance sheet total of over €2 million. Updating systems to XML is a considerable undertaking.

It is the merchant's responsibility to ensure payments are in the correct format before they are transmitted to a payment service provider. You will need to assess the current readiness of your systems and the level of development required. It may be possible to update internal systems to be compatible with ISO 20022 XML. However, if your accounts software provider is unable to provide SEPA compliant files you may wish to use a conversion service.

For further information about supported formats, refer to the SEPA rulebooks (europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/sepa-direct-debit-core-rulebook-version-70/) or your bank.

How can GoCardless help you get ready for SEPA?

GoCardless is already SEPA compliant and, as such, takes the hassle out of the transition to SEPA Direct Debit for their merchants:

- **IBAN and BIC account details** - You only need to collect the IBAN of your customers. We automatically compute the BIC, saving your customers time and avoiding human errors. We check IBAN for you immediately on submission, and send an error if the IBAN is incorrect.

- **XML message format** - As a GoCardless merchant, you will not need to transition to XML message formats. We will submit and receive any messages for you using this SEPA compliant format, as well as keep up with evolving regulations. See Submitting (gocardless.com/guides/sepa/submitting-sepa-messages/) and Receiving messages from the banks (gocardless.com/guides/sepa/receiving-sepa-dd-messages/) for further details on how GoCardless can help you to understand and act on these messages.

To find out more about collecting SEPA Direct Debit payments or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/)

SEPA Direct Debit checklist

You have two options to become SEPA compliant: overhaul your payment systems and process to comply with the strict SEPA requirements, or find a Direct Debit provider like GoCardless who can take care of all of this for you.

If you choose to do the work in-house, the following checklist will help you become SEPA compliant.

1. Review current systems and processes

Ensure messaging formats are SEPA compliant

- Ability to produce and process XML format

Ensure processes are SEPA-compliant

- Ability to store BIC and IBAN and to comply with SEPA timings
- Ensure there are appropriate procedures in place to handle 'R' transactions

2. Obtain a Creditor Identifier

Contact your bank to find out what you need to do to become a creditor in the SEPA scheme. Each bank may apply its own criteria to assess your suitability. Complete any necessary application and provide any requested documentation.

3. Conversion to BIC and IBAN

Obtain BIC and IBAN details from payers

- Existing customer's Sort Codes and Account Numbers will need to be converted to the required BIC & IBAN format.
- External vendors can provide conversion of existing details to the new format.

Validate data

- Implement algorithms to ensure data provided to banks for processing is valid

4. Mandate management

Migrate any existing mandates to the Core scheme

- Review current mandate related information and assess whether sufficient
- Update mandate information
- Assign unique mandate references

Create new mandates for existing Direct Debits for the B2B scheme

- Create new mandates
- Assign unique mandate reference

5. Customer communications

- Notify existing customers of your migration to SEPA Direct Debit
- Consider how you will deliver subsequent notifications e.g. collection notifications, rejections, refunds

6. Testing and Implementation

- Allow time for a testing phase in the migration phase

To find out more about collecting SEPA Direct Debit payments or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Chapter 3 – SEPA Mandates

SEPA Direct Debit mandates

Before you can collect payment by SEPA Direct Debit, your customer must complete a mandate authorising you to take payments.

Strict rules apply to this process and to the content of mandates. These must be complied with to set up a valid mandate. If a mandate is not valid you will not have authorisation to collect payments under it, so it's important to make sure you get these right.

This guide will walk you through setting up SEPA compliant Direct Debit Mandates yourself and with GoCardless. You may also want to read our guides to mandate management as well as setting up SEPA Direct Debit and taking payments by SEPA Direct Debit.

What is a SEPA Direct Debit mandate?

A SEPA Direct Debit Mandate is the authorisation given by your customer allowing you to collect future payments from them at any time on their Euro-denominated bank account (subject to advance notice).

Each mandate must include certain mandatory legal wording and mandatory information (as specified here).

This wording sets out the refund provisions under the relevant SEPA Direct Debit scheme. See our guide to SEPA Customer Protections for further details.

Customers will often require a particular schedule of payments such as a fixed subscription. The advance notice requirements of a SEPA Direct Debit Mandate provide protection against payments taken mistakenly or fraudulently.

Creating a mandate

To set up a mandate, your customer will need to complete a SEPA Direct Debit Mandate form. This can be done in three ways:

1. **Paper** - A paper mandate form (gocardless.com/guides/examples/sepa-paper-mandate.pdf) can be completed by your customer and returned to you.

2. **Paperless** – An electronic mandate form (gocardless.com/guides/examples/sepa-mandate.pdf) can be completed by your customer through an electronic channel.

3. **E-Mandate** – An e-mandate form can be completed by your customer through an electronic channel within their internet banking. The e-Mandate function is an optional service that has only been implemented by a couple of banks so far.

Paper Direct Debit

The content (but not the layout) of paper SEPA Direct Debit Mandates is strictly controlled. Compulsory information and wording are set out in our guide to mandatory mandate contents.

All Payer mandatory fields must be completed by the customer even if they have already provided the information on other documentation.

Once a paper form has been completed the customer will need to return it to you. You will then be required to convert the written information on the signed mandate into electronic data. This mandate related data should then be submitted to the banks as part of each collection (see *submitting messages to the banks* below). The paper mandate form should then be retained as evidence of the SEPA Direct Debit authorisation. The mandate can either be stored as the original document or in digitalised format in accordance with national legal requirements.

Paperless Direct Debit

Similarly to paper mandates, the content (but not the layout) is strictly controlled. You can see a SEPA compliant example mandate form here (gocardless.com/guides/examples/sepa-mandate.pdf).
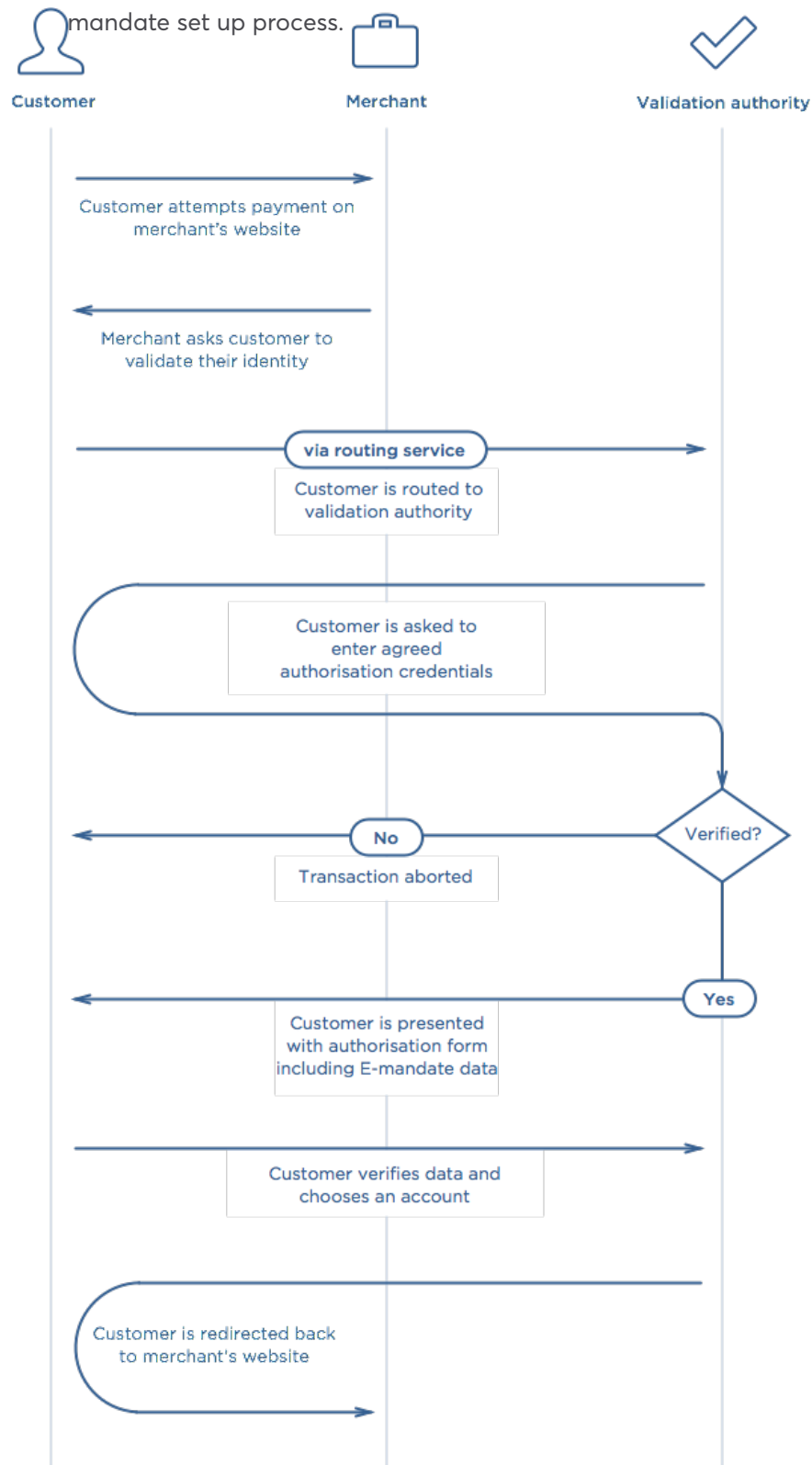
Once completed, a mandate needs to be signed using a legally binding method of signature.

Once the mandate has been completed and returned to you, it must be submitted to the banks (see next section). There is no physical version of the mandate to be stored. However, the mandate related data should be extracted from the electronic document and stored electronically. This mandate related data should be sent to your bank with each collection.

E-mandates

E-Mandates are an optional service outlined by the SEPA Direct Debit scheme. The e-mandate process could offer security advantages over paper and paperless mandates, however, there remains a relative dearth of e-Mandate providers on the market. There are currently no banks offering the e-Mandate service in the UK.

E-mandates use your customer's online banking credentials and, as such, are set up in a different way to paper and paperless mandates. The diagram below sets out a brief summary of the e-mandate set up process.

Customer

Merchant

Validation authority

Customer attempts payment on merchant's website

Merchant asks customer to validate their identity

via routing service

Customer is routed to validation authority

Customer is asked to enter agreed authorisation credentials

Verified?

No

Transaction aborted

Yes

Customer is presented with authorisation form including E-mandate data

Customer verifies data and chooses an account

Customer is redirected back to merchant's website

Submitting a SEPA Direct Debit mandate to the banks

Once your customer has completed a SEPA Direct Debit mandate it needs to be submitted to the banks. This informs your customer's bank of the SEPA Direct Debit mandate, and allows you to collect payments against it in future.

Submissions to the banking system are made directly to the bank using an XML file containing the mandate related data. More details on the submission process are available in our guide to submitting messages to the banks.

Once submitted to the banks, the SEPA Direct Debit mandate will be active once the first payment is confirmed (see Timings). Once active you can start taking payments against it. The mandate related data will also need to be submitted with each subsequent collection.

If anything goes wrong during the setup process, you'll be alerted by a message from the bank (see the Messages from the Banks. If you would like further details on submitting a SEPA Direct Debit mandate to the banks you might find helpful our guide to Submitting messages to the banks

SEPA Direct Debit mandates through GoCardless

GoCardless provides an optimised flow for your customers to create new SEPA Direct Debit mandates online:

- **Your own branded payment page**. GoCardless provides you with a securely hosted online form which you can brand (see example here) (gocardless.com/example-checkout/). Alternatively, GoCardless Pro lets you design your own pages.
- **We manage mandates for you**. We keep mandates in electronic format securely on our server, in line with SEPA Direct Debit rules. You can easily retrieve them on our dashboard or via our API.
- **Submitting mandates is handled on your behalf**. Simply request funds through the GoCardless dashboard or API. GoCardless will submit the relevant mandate related data with each collection.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Mandatory mandate contents

This article explains the mandatory wording in SEPA Direct Debit mandates.

SEPA Direct Debit mandates must include certain mandatory wording:

1. The standard heading: 'SEPA Direct Debit mandate'.

2. The heading of the mandate must contain the following mandatory legal text:

Core scheme

"By signing this mandate form, you authorise (A) {NAME OF MERCHANT} to send instructions to your bank to debit your account and (B) your bank to debit your account in accordance with the instructions from {NAME OF MERCHANT}. As part of your rights, you are entitled to a refund from your bank under the terms and conditions of your agreement with your bank. A refund must be claimed within 8 weeks starting from the date on which your account was debited. Please complete all the fields marked."

B2B scheme

"By signing this mandate form, you authorise (A) {NAME OF MERCHANT} to send instructions to your bank to debit your account and (B) your bank to debit your account in accordance with the instructions from {NAME OF MERCHANT}. This mandate is only intended for business-to-business transactions. You are not entitled to a refund from your bank after your account has been debited, but you are entitled to request your bank not to debit your account up until the day on which the payment is due. Please complete all the fields marked. *"

3. The mandate must also contain the following legal wording:

"Your rights are explained in a statement that you can obtain from your bank."

SEPA Direct Debit mandates must also include certain mandatory information

- Whether it is core/B2B

- Unique mandate reference

- Name of the payer

- IBAN of the payer

- BIC code of the payer's bank

- Merchant company name

- Merchant's Creditor Identifier

- Merchant's full address (including postal code and country)

- Type of payment

- Signature place and time

- Signature(s)*

* * The SEPA e-mandate scheme does so through the payer's online banking, but this is currently unsupported by the banks. GoCardless maintains comprehensive logs of the 'electronic signature' the customer creates.*

GoCardless can help design a compliant SEPA mandate. We also have created an easy to complete form which populates a SEPA compliant mandate (here) (gocardless.com/guides/examples/sepa-mandate.pdf) via our API. This mandate includes all of the above information.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Advantages of paperless mandates for SEPA Direct Debit

At GoCardless we believe the key to unlocking the full potential of SEPA and Direct Debits more generally, particularly for online merchants, is currently the paperless mandate.
Paperless mandates have several advantages over paper mandates and can provide potential cost and efficiency benefits:

- **Fewer manual entry processes** - paper mandates require physical transfer, storage and details to be keyed in manually by merchants. The paperless mandate process is therefore inherently more efficient and less open to error.

- **Automated processes** – paperless mandates allow automatic storage and retrieval of mandate data.

- **No printing, signing and returning effort** – Paperless mandates avoid the inconvenience of printing, signing and mailing a paper form by using a fully electronic process. This means that there are no printing and postage costs. It also reduces paper files and archiving.

GoCardless provides a simple online system for creating and managing mandates.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Advantages of E-mandates

In the future, banks may also be able to offer the e-mandate function. This may offer further benefits. This is an optional service in SEPA and banks do not have to offer it.

E-mandates have an advantage over paper and paperless mandates in terms of security:

- **Familiar banking procedures** - e-mandates use the secure, widely used online banking services of a customer's bank. The customer, therefore, can simply rely on familiar online banking procedures. Customers can also re-use their online banking credentials or other bank provided electronic access channels to complete the mandate online. No additional means of identification are required. This decreases the risk of fraud.

Despite this clear advantage, there remains a relative dearth of e-mandate providers on the market. For the e-mandate service to work it needs to be taken up by a significant number of the banks. GoCardless has therefore developed a paperless model which enables merchants to set up and manage securely SEPA Direct Debits online.

If you would like to use e-mandates to collect SEPA Direct Debit payments, please keep checking our website (gocardless.com/europe/) for updates.

Managing your SEPA mandates

SEPA Direct Debit requires merchants to carry out mandate management including:

• Physical collection and storage

• Updates and amendments

• Cancellation

This guide will walk you through managing your SEPA Direct Debit mandates. You may also want to read our guides to options for setting up Direct Debit and taking payments by SEPA Direct Debit.

Physical collection and storage

All signed paper mandates together with any later modifications or cancellations must be **stored and maintained by the merchant**. This differs to UK Direct Debit where mandates are stored and maintained by the payer's bank.

For paperless and e-mandates, the electronic mandate related data must be stored intact by the merchant. Paper mandates should be stored either as the original document or in digitalised format subject to national legal requirements.

All SEPA Direct Debit mandates should be stored as long as the mandate is valid and **for at least 36 months after the final collection**.

Updates and amendments

Both the merchant and the payer can amend a mandate at any time.

Any amendments must be agreed between you and your customer. You do not need to involve the banks although you may need to inform them of certain changes. As merchant, you are responsible for making and storing any amendments to a mandate.

Merchants may wish to make amendments to:

• The Unique mandate reference

• Their name

• The Creditor Identifier

The payer and both banks should be informed of these changes. Details of how these amendments can be used to switch Direct Debit provider can be found in our guide to Transferring Mandates

Payers may also wish to make amendments including:

• Changing to another bank account at the same bank.

• Changing to another bank account at a different bank. This would also change the account number so would require a new mandate (and the following collection would need to be submitted as a first payment).

As a merchant, you must be informed before these changes can take place.

To make any amendments to a mandate you will need to:

1. Electronically store the details of the amended mandate; and

2. Send the information to your bank as part of the next collection.

If any of the above amendments are made the bank will also need to be notified at the time of the amendment.

Cancellations

Either the customer or the merchant can cancel the mandate at anytime. A mandate can be also cancelled automatically due to inactivity (see below). In both cases, it is not necessary to involve either of the banks.

For B2B Direct Debits your customer's bank must include an obligation for the payer to inform their bank about the cancellation of a mandate in its conditions. Your customer's bank can then update its stored instructions for rejecting unauthorised collections.

As merchant, you are responsible for archiving and storing any cancellation documents (e.g. letters to your customer confirming the cancellation for a Paper mandate). If you are using e-

Mandates any cancellation must be made online. Cancellations of paper and paperless mandates may also be made online. If any further collections are still to be made following the cancellation, information on the cancellation must be included as part of the last collection.

Any mandate which has been inactive for 36 months must be automatically cancelled by you. Once a mandate has been cancelled it cannot be used again. You will not be able to initiate any further collections based on this mandate. If you do need to collect any further Direct Debit payments you will need to set up a new mandate.

SEPA Direct Debit mandates through GoCardless

GoCardless provides a Mandate management service online:

- Automated responses to messages from the banks.

- Amendments made on request and automatically incorporated into future collections.

- Cancellations made on request (or automatically after 36 months). The mandate related data will continue to be stored by GoCardless for a further 14 months following cancellation.

This means that you do not have to collect or store any documents or the mandate itself as we look after everything for you.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

How to transfer mandates to another provider

If you want to switch SEPA Direct Debit provider at any time the mandate amendment process provides a simple way to do this.

Combining changes to the merchant's name, unique mandate reference (UMR) and SEPA Creditor Identifier (CID) enables a merchant to easily transfer mandates between providers.

This guide walks through the process to transfer SEPA Direct Debit mandates from one SEPA Direct Debit provider to another. If you would like to transfer to GoCardless, we can help you with this process free of charge.

How to amend a SEPA Direct Debit mandate

Similarly to the "bulk change" process in the UK Direct Debit scheme, the SEPA Direct Debit scheme allows the merchant name, unique mandate reference (UMR) and SEPA Creditor Identifier (CID) on a mandate to be changed. The customer must be notified of the change in advance of the next payment.

Although customers must be notified of these changes there is no need for them to give consent, or to set up a new SEPA Direct Debit mandate. The authorisation given to the merchant under the existing mandate is sufficient.

Details of the changes should be provided by adding the amendments to the mandate within the XML message sent to the banks with a new collection.

How to switch Direct Debit provider

By updating the SEPA Creditor Identifier field, it is possible to transfer mandates between Direct Debit providers. All that is required is for the SEPA Creditor Identifier field to be updated to that of the new provider. Similarly to UK Direct Debit, the following transfers are therefore possible:

• A merchant's own Creditor Identifier to 3rd party provider

• 3rd party provider to 3rd party provider

• 3rd party provider to a merchant's own Creditor Identifier

As set out above, no input is required from your customer.

Timing of process

Unlike under the UK Direct Debit scheme, transferring mandates under the SEPA Direct Debit scheme will be instant but is only performed with a new collection.

Transferring SEPA Direct Debits to GoCardless

If you would like to transfer your existing SEPA Direct Debits to GoCardless we will be able to help you through the process free of charge.

GoCardless can migrate existing mandates on your behalf. We only need your existing mandates data and your schedule of future collections. Your customer will need to be notified, but not to take any action whatsoever.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Chapter 4 – How does the SEPA Direct Debit scheme work?

How to take payments with SEPA Direct Debit

Once you have a SEPA Direct Debit mandate set up with your customer, you can collect SEPA payments from them at any time. This guide will walk you through the process for taking SEPA payments.

Pre-notification for SEPA payments

Before you can collect a SEPA Direct Debit payment from a customer, you must give them "pre-notification". Essentially, the scheme rules require that your customer is informed of each payment before it leaves their account. For SEPA Direct Debit payments this advance notice is 14 calendar days unless a shorter notice period is agreed with your customer.

If you are collecting regular payments of a fixed amount you only need to provide a single payment notification detailing the frequency and amount. If you wish to collect payments of variable amounts or at irregular intervals, you must give your customer advance notice before each payment.

Each notice should contain:

- the payment due date
- the charge amount
- the mandate reference
- the merchant Creditor Identifier
- *(optional)* the payer's BIC

Submitting SEPA payment requests to the banks

Once a mandate has been signed, SEPA payments can be collected by notifying the payer and submitting a request and the mandate related data to the banks.

Once the payer has been notified, a payment is initiated by submitting a file to the merchant's bank. This file must contain mandate related data from the original mandate. The bank then forwards the request along with the mandate-related data to the clearing and settlement mechanism who will in turn forward this to the customer's bank.

Under the B2B scheme, the process is the same but the payer's bank must check that any mandate has been duly issued and authorised by the payer. The bank must also check that the mandate related data received with the first collection corresponds with the information contained in the original mandate before debiting the payer's account. They must also store this data and the related instructions to verify each subsequent collection against the mandate using the following attributes:

1. Creditor Identifier

2. Unique Mandate Reference

3. Customer BIC & IBAN

SEPA Payments: Post-submission

Once submitted it takes several working days to know if a SEPA payment has succeeded or failed. Full details of the timings for Direct Debit payments are in our timings guide.

If a payment is successful your account will simply be credited. If a payment fails, you will receive a message from the bank. For full details on how these messages are received, and their meanings, see Messages from the Banks

Taking SEPA Direct Debit payments through GoCardless

GoCardless process SEPA Direct Debit payments on your behalf, including:

- **Notifying customers**: GoCardless sends customers a bank-approved advance notice of each payment. Under our terms and conditions customers agree to a reduced notice period of 3 days. This gives you much greater flexibility than the standard 14 day advance notice period. With GoCardless Pro, you are in control of notifying the customers.

- **Submitting payment requests**: GoCardless handles all submissions to the CSM on your behalf. Simply request payments in our online dashboard or via the API and we will do the rest.

- **Collecting as fast as possible**: GoCardless has optimised the SEPA Direct Debit collection process to collect funds as quickly as possible.

This means that once the mandate is set up, you don't need to do anything to collect SEPA Direct Debit payments.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/)

SEPA Direct Debit customer protection

SEPA Direct Debit customers are protected from payments taken in error.

In the case of any incorrect or fraudulent payments, the payer is entitled to a full and immediate refund from their bank. Unlike the UK Direct Debit Guarantee, however, the protections offered by SEPA Direct Debit are time limited.

This guide will explain the protections your customers receive, your obligations and how GoCardless can help you to manage any claims.

SEPA Core Direct Debit Scheme

The SEPA Core Direct Debit Scheme protects customers in three ways:

1. **Notifications** - Customers must be notified in advance of each payment. See our guide to taking payments for more details.

2. **Refunds** - Customers are (subject to time limits) entitled to refunds for authorised and unauthorised Direct Debit collections. See the refunds section (below) for further details.

3. **Control** - Customers are able to:

   - Instruct how to handle incoming collections by specific merchants specifically or by drawing up black lists (blocking SEPA Direct Debits from certain merchants) and white lists (allowing SEPA Direct Debits from certain merchants)
   - Set maximum payment amounts and specify payment intervals
   - Block all Direct Debit collections from their account

SEPA B2B Direct Debit Scheme

The SEPA B2B Scheme is only available to businesses and therefore provides significantly weaker protections:

- **Notifications** - customers must be notified in advance of each payment. See our guide to taking payments for more details.

- **Refunds** – customers are (subject to time limits) only entitled to refunds for unauthorised Direct Debit collections. See Refunds (below) for further details.

- **Validation by the customer's bank** - the payer's bank must check that any mandate has been duly issued and authorised by the payer and that the mandate related data received with each

collection corresponds with the information contained in the original mandate before debiting the payer's account. The payer's bank will also need to comply with any further verification instructions provided by the payer. This is because there is no right to a refund.

Each of the above protections are enforced by the banks and so form an intrinsic part of the SEPA Direct Debit scheme. Refunds are processed by the payer's bank without prior discussion with the merchant.

Refunds

No-questions-asked refunds (Core scheme customers only)

Refunds which are requested within eight weeks of the SEPA Direct Debit being debited will be provided by a payer's bank on a no-questions-asked basis.

If a refund is requested the customer's bank will immediately credit the customer with a full refund. They will then notify the merchant of the chargeback via our dashboard or API with a reason code (see our guide to receiving messages from the banks). The amount refunded to the customer will be automatically reclaimed from the merchant.

Refunds of unauthorised transactions (B2B and Core scheme customers (if not within eight weeks))

If the request for a refund concerns an unauthorised transaction (and, if under the Core Scheme, is not within eight weeks of the payment), a customer must present its claim and any supporting evidence to their bank within 13 months of the debit date.

A SEPA Direct Debit is deemed to be an unauthorised transaction if:

- No mandate exists.
- The mandate was invalid.
- The mandate has expired (no transactions for 36 months).

In practice, the customer's bank will always accept the word of the payer, and immediately credit them with a full refund. They will then notify the merchant of the chargeback via a message with a reason code (see our guide to receiving messages from the banks) The amount refunded to the customer will be reclaimed from the merchant automatically.

Dispute resolution

You may not agree that a chargeback claim should be upheld. If so you may have to contact the payer to handle the claim outside of the scheme. A chargeback claim under the SEPA Direct

Debit scheme does not impact any contractual agreements between a merchant and their customer.

SEPA Customer Protections in action at GoCardless

These protections apply universally; however, GoCardless will help you to manage any chargeback claims by:

• immediately notifying you if a claim is made by one of your customers.

2 weeks before collection (or a shorter period if agreed with the customer)	Notify your customer that you will be collecting the payment 2 weeks later (or the shorter period agreed with the customer).
5 business days before collection	This is the last day you can send a one-off or first collection instruction to your bank under the SEPA Core Direct Debit Scheme.
2 business days before collection	This is the last day you can send a subsequent or final collection instruction to your bank under the SEPA Core Direct Debit Scheme.
Day of collection	Day on which the payer's bank account is debited.
5 business days after collection	This is the last day your customer's bank can return a collection if they are unable to accept the collection (e.g. account closed).

• working with you and your customer to understand the cause, resolve any issues and retake the payment if appropriate.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

SEPA Direct Debit payment timings

Similarly to UK Direct Debit, SEPA Direct Debit is not an instant payment method. Payments take at least 2 interbank working days under the B2B scheme and 3 interbank working days under the Core scheme to clear on your bank account.

2 weeks before collection (or a shorter period if agreed with the customer)	Notify your customer that you will be collecting the payment 2 weeks later (or the shorter period agreed with the customer).
1 business day before collection	This is the last day you can send a collection instruction to your bank under the SEPA B2B Direct Debit Scheme.
Day of collection	Day on which the SEPA direct debit is processed.
2 business days after collection	This is the last day you can correct the collection. This is the last day your customer's bank can reverse the collection.

This guide details the timings for SEPA Direct Debit, and explains how GoCardless can help you to optimise them.

Cut-off to submit payments in SEPA Core Direct Debit Scheme

- For first payment collections, you must submit the collection to the banks 5 interbank business days before the payment due date.

- For subsequent payment collections, you must submit the collection to the banks 2 interbank business days before the payment due date.

Cut-off to submit payments in SEPA B2B Direct Debit Scheme

- Under the SEPA B2B Direct Debit Scheme, you will need to submit a collection to the banks 1 interbank working day before the payment due date.

Collecting payments under the SEPA Core Direct Debit scheme

Collecting a SEPA payment against an existing mandate

A collection under an existing mandate must be submitted to the banks 5 interbank working days before a first collection and 2 interbank working days before any subsequent collections. The chart below shows the relevant timings for the SEPA Core Direct Debit scheme:

Under the SEPA Direct Debit Core Scheme, a payer is entitled to request a refund of an authorised collection from his bank within 8 weeks of being debited. The payer is also entitled to request a refund of an unauthorised or fraudulent collection from his bank up to 13 months after being debited.

Collecting payment when no mandate exists

If you don't already have a mandate with your customer, one must be set up before a payment can be collected. As soon as a signed mandate is received, you can submit a payment request. As this would be a first collection, it will take 5 interbank working days before the payment is collected (see timings above).

For further details on how to set up a mandate, see our guide on SEPA Direct Debit mandates.

Collecting payments under the SEPA B2B Direct Debit scheme

A collection must be submitted to the banks 1 interbank working days before the payment due date, regardless of the collection type (one-off, first or subsequent). The chart below shows the relevant timings for the SEPA B2B Direct Debit scheme:

Under the SEPA Direct Debit B2B scheme, the payer is not entitled to obtain a refund of an authorised collection. However, if a payer believes that a collection is not covered by a B2B mandate, they will be entitled to claim a refund of an unauthorised or fraudulent collection for up to 13 months after being debited.

Payment failure notifications

If a payment fails prior to settlement, the customer's bank will notify your bank on the day the payment was due. If there is a problem with a payment following settlement, the customer's bank will notify your bank on the day that the problem occurs or up to a maximum of 5 days after settlement.

Merchants should be aware of the return period for payments during which the customer's bank can return a payment e.g. if they have been unable to take the payment from your customer's account due to insufficient funds. For Core scheme payments, returns must be settled by 5 interbank business days after the due date. For B2B scheme payments this returns period is reduced to 2 interbank business days.

Code	Use Case
FRST	The first collection under a mandate.
RCUR	Standard collections under a mandate. Use this for all regular subsequent SEPA Direct Debit transactions.
FNAL	The final SEPA Direct Debit collection under a mandate.
OOFF	To be used for one-off SEPA Direct Debit collections. Any subsequent collections will be rejected.

For further details of the issues which may occur see our guide to <u>messages from the banks</u>.

Non-working days and optimising timings

Submissions to the banks can only be made on an interbank working day. Banks will not process any messages on non interbank working days. However, this does mean that you may receive a message on a national bank holiday which is not an interbank holiday.

Each interbank working day has a cut-off time which can vary from bank to bank. If this cut-off time is early in the working day, it is recommended to submit to the banks one day before the regular schedule, for example 6 days (instead of 5) before a first collection and 3 days (instead of 2) before a recurring collection.

Optimising timings by combining the Core and B2B scheme

To optimise timings, you should, where possible, try to take payments under the B2B scheme. The significantly shorter timings, particularly for initial collections, coupled with a reduced return period and refund policy may appeal to merchants. However, the scheme can only be used to collect payments from businesses, not consumers or micro-enterprises. Moreover, this scheme will only be available with participating payer banks which may reduce its reachability. Nevertheless, you can use a combination of the B2B and Core schemes where appropriate to optimise your payment process.

SEPA Direct Debit timings with GoCardless

GoCardless process all SEPA Direct Debit payments according to the fully optimised timetables above. GoCardless submit and retrieve messages from the banks on your behalf, complying with interbank timing and cut-off times. You have absolute transparency on the status of your payments at any time through our dashboard or API.

GoCardless are currently processing SEPA Direct Debit payments through the SEPA Core Direct Debit scheme. We will soon extend our SEPA Direct Debits capability to the SEPA B2B scheme. We will then help you to use a combination of the schemes, as appropriate, to optimise your payment process.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our <u>GoCardless Europe page</u> (gocardless.com/europe/).

How to submit SEPA Direct Debit mandates and payment requests

In the SEPA Direct Debit scheme, all communications are made through the banks. This is unlike under the UK Direct Debit scheme where all messages are sent via Bacs.

This guide details how to submit new SEPA Direct Debit mandates and payment requests. For details on receiving update messages, see <u>receiving messages from the banks</u>.

How to submit SEPA DD Mandates and payment requests

New SEPA Direct Debit Mandates and payment requests are submitted by uploading an XML file to the bank. Each collection must contain the mandate-related data retrieved from the original mandate along with any amendments. This file will be sent by the merchant's bank to the selected clearing and settlement mechanism. The CSM will then forward this file to the payer's bank.

After the Mandate is set up, the merchant may initiate collections. If any errors are made during the setup process, you will be alerted by a message from the bank.

Submitting payment requests to the banks

The following transaction codes are used for submitting payment requests:

Each of these payment requests should also include the mandate related data. For further details on how to set up, amend or cancel a mandate see our guides on <u>SEPA Direct Debit Mandates</u>.

For more details on taking SEPA Direct Debit payments, see our guide to <u>taking SEPA payments</u>.

Submitting messages through GoCardless

GoCardless provides a simple but powerful user interface and API for creating SEPA Direct Debit Mandates and payment requests.

Once a customer has completed the mandate you will be able to submit a payment request in 3 simple steps:

1. Select the customer on your dashboard.

2. Complete the simple form with details of the amount and date of the payment. You will also be given the option of setting up recurring payments or bulk uploading a batch of payments.

3. GoCardless will then use this information along with the mandate data to submit a payment request to one of our sponsor banks on your behalf.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

SEPA Direct Debit failures,

Type of Payment Failure	R-transaction
Mandate	**Reject:** Direct Debits which are rejected by the payer's bank. • Technical reasons e.g. wrong IBAN, missing mandatory information. • Payer bank unable to process e.g. account closed, debtor deceased, mandate cancelled, no mandate. **Refusal:** The payer requests the payment be refused (up to close of business the day before payment due). An example would be where the payer does not want to pay.
Payment issues (pre settlement)	**Revocation:** the merchant or its bank revoke the Direct Debit (e.g. in the case of a mistaken payment request). You must confirm with your Creditor bank that they offer this service. **Request for cancellation:** revocation of the Direct Debit by the merchant's bank (e.g. in the event of a mistaken double submission). You must confirm with your Creditor bank that they offer this service.
Payment issues (following settlement)	**Return:** Initiated by payer's bank e.g. insufficient funds. The latest date for settlement of a Return in the Core scheme is up to five interbank business days after the Settlement Date of the Collection. For the B2B scheme this is reduced to 2 interbank business days. **Reversal:** cancellation of the Direct Debit by the merchant after settlement via authorising a credit (e.g. in the event of an unintended Direct Debit collection). Reversals must be submitted within 5 days of the original debit date. Reversals can only be processed after settlement and within 5 working days of the due date. You must confirm with your Creditor bank that they offer this service.
Chargeback	**Refund**: return by the payer's bank (e.g. due to objection by the payer). For further details see our guide to Customer Protections.

chargebacks and notifications

In the SEPA Direct Debit scheme, all communications are directly with the banking system. Receiving and understanding these messages is crucial to collecting SEPA Direct Debit payments.

This guide details updates you may receive from the bank. These updates include any payment failures, chargebacks, or changes in your mandates. You may also be interested in our guides to taking payments and submitting payments.

Types of messages from the banks

If anything goes wrong during the mandate setup process or following a payment request, you will be alerted by a message from the bank. These messages are received as 'R' codes and cover: Refund, Refusal, Reject, Return, Reversal, Request for cancellation or Revocation. Brief details of each of these can be found below:

Type of Payment Failure	R-transaction
Mandate	**Reject**: Direct Debits which are rejected by the payer's bank. • Technical reasons e.g. wrong IBAN, missing mandatory information. • Payer bank unable to process e.g. account closed, debtor deceased, mandate cancelled, no mandate. **Refusal**: The payer requests the payment be refused (up to close of business the day before payment due). An example would be where the payer does not want to pay.
Payment issues (pre settlement)	**Revocation**: the merchant or its bank revoke the Direct Debit (e.g. in the case of a mistaken payment request). You must confirm with your Creditor bank that they offer this service. **Request for cancellation**: revocation of the Direct Debit by the merchant's bank (e.g. in the event of a mistaken double submission). You must confirm with your Creditor bank that they offer this service.

Payment issues (following settlement)	**Return**: Initiated by payer's bank e.g. insufficient funds. The latest date for settlement of a Return in the Core scheme is up to five interbank business days after the Settlement Date of the Collection. For the B2B scheme this is reduced to 2 interbank business days. **Reversal**: cancellation of the Direct Debit by the merchant after settlement via authorising a credit (e.g. in the event of an unintended Direct Debit collection). Reversals must be submitted within 5 days of the original debit date. Reversals can only be processed after settlement and within 5 working days of the due date. You must confirm with your Creditor bank that they offer this service.
Chargeback	**Refund**: return by the payer's bank (e.g. due to objection by the payer). For further details see our guide to Customer Protections (gocardless.com/guides/sepa/protection)

An example failure message:

```
  <FailGrp>
 <FailTxDtl>
  <ColltnId>0HZPGY9GT9</ColltnId>
  <MndtId>ADMINISTRATE-ERPKD</MndtId>
  <DbtrBIC></DbtrBIC>
  <DbtrIBAN></DbtrIBAN>
  <CdtrBIC>RBOSGB2L</CdtrBIC>
  <CdtrIBAN>GB35RBOS16109010058157</CdtrIBAN>
  <Val>215.00</Val>
  <ColltnSts>REJECTION</ColltnSts>
  <ExceptRsn>NO VALID MANDATE</ExceptRsn>
 </FailTxDtl>
</FailGrp>
```

Specific codes are then used to help merchants understand why the failure occurred. Messages can be received for a number of reasons. These can be grouped into the below:

Errors due to incorrect data in your submission

These codes tell you there is an error in the data you submitted. Some can be resolved with the payer, whilst others are errors in your internal data or how you compiled the submission file.

Data errors which can be corrected with the payer

On receiving one of these errors, you should attempt to correct the data in your database with the help of the payer and then submit the request again.

Reason Code	Description	More details	Action required
AC01	Incorrect Account Identifier	The IBAN or BIC code provided by your customer is incorrect. You can perform these checks yourself before submitting.	Contact your customer to confirm the correct IBAN.
RC01	Invalid BIC	The BIC code provided by your customer is incorrect. You can perform these checks yourself before submitting.	Contact your customer for the correct BIC.
RR01	Debtor account or identification required for regulatory requirements is insufficient or missing.	The payer's account information is missing. You can perform these checks yourself before submitting.	If it due to missing information amend the collection and resubmit. If it is a regulatory reason contact the customer's bank.

RR02	Specification of Debtor name or address required for regulatory requirements is insufficient or missing.	The payer's name or address details are missing. You can perform these checks yourself before submitting.	If it due to missing information amend the collection and resubmit. If it is a regulatory reason contact the customer's bank.
RR04	Regulatory reason	RR04 can only be used for a regulatory reason other than RR01, RR02 or RR03.	You should contact your Bank and request that they contact the Payer's Bank to find out the rejection reason.
BE01	Debtor's name does not match with the account holder's name	The customer name you have submitted does not match the actual account holder's name of the account provided.	Contact your customer to check details.

Internal data errors

These error codes are sent to you when you submit incorrect creditor data, a file with invalid formatting, or wrongly sequenced transactions.

On receiving one of these errors, you should attempt to correct the data in your database or submission file and then submit the request again.

Reason Code	Description	More details	Action required
AM05	Duplicate collection	The collection has already been made. This could either be due to an incorrect transaction ID or if two FRST transactions have been submitted.	Check whether the collection is really duplicated.

BE05	Creditor Identifier incorrect	The Creditor Identifier provided is incorrect or is invalid.	Correct the Creditor Identifier and resubmit.
FF01	Incorrect transaction code or invalid file format	Your submission file does not contain a mandatory field, or a field is populated in a fashion that does meet the interbank specification.	Repair the XML file.
FF05	Direct Debit type incorrect	The DD type states a value other than COR, COR1 or B2B.	Check the type of Direct Debit.
MD02	Mandate data missing or incorrect	Mandate information provided by your customer is incorrect or there are details missing.	Update the missing or incorrect information.
RR03	Creditor name or address required for regulatory requirements is insufficient or missing.	Your name or address details are missing. You can perform these checks yourself before submitting.	If it due to missing information amend the collection and resubmit. If it is a regulatory reason contact the customer's bank.
AG02	Payment transaction code incorrect, or sequence error	The sequence type is not consistent with previous collections. For example, you submit a RCUR payment against a customer without a previous FRST payment.	Correct the wrong information and resubmit.

| MD01 | No valid mandate or unauthorised transaction | The mandate is no longer live on the customer's account. When sent in response to a RCUR, the mandate has been cancelled by the customer and cannot be re-instated. Otherwise the mandate may have expired, if unused for 36 months. Also used when a customer requests a refund, stating it was an unauthorised transaction. This can occur up to 13 months after settlement. | Check whether a valid mandate is in place. In the case of a refund then contact your customer for further details. |

Errors caused by the customer

The codes tell you that the failure occurred because of an issue on the customer's side; they are the most common failures.

There are two categories of failure: those that tell you it is not possible to set up a mandate on the account your customer has supplied to you, or single payment failures submitted against an existing mandate.

The account cannot accept SEPA Direct Debits

Some bank accounts cannot accept Direct Debits; they may be closed, or blocked either for regulatory reasons or by the customer. If you receive one of these messages, you will not be able to set up a Direct Debit mandate on the account. When appropriate, ask the payer to supply new bank account details, or lift the block on their account, and then submit a new payment request as a FRST collection.

Reason Code	Description	More details	Action required
AG01	Direct debit forbidden on this account for regulatory reasons	A SEPA Direct Debit cannot be set up on this type of account. It is likely to be a savings account.	Contact your customer for information about the account to be used.
AC04	Closed Account	The account has been closed. The customer may have used an old account number or closed the account since setting up the mandate.	Contact your customer to get new account details.
MD07	End Customer Deceased	You have attempted to set up a mandate on the account of someone who is deceased. Extremely rare.	End the agreement with the deceased customer.
AC06	Account blocked for SEPA Direct Debit by the Debtor	The account has been blocked for Direct Debits either by the bank or your customer. It may be blocked by default, in which case the debtor can lift the block.	Contact your customer to ask for an alternative account/payment method.
SL01	Specific service offered by the debtor bank	The request clashes with specific instructions your customer has put on their account, eg. blacklisting, or not whitelisting, the creditor.	Contact your customer.

AC13	Debtor account is a consumer account	A SEPA DD B2B collection has been requested from a consumer account. This may be because the customer gave the wrong payment account, the payment account doesn't support B2B collections or that the customer was unaware that B2B mandates are restricted to non-consumers.	Contact your customer for clarification and to agree on another means of payment (e.g. SEPA DD core mandate).

A specific payment cannot be taken

A payment may fail due to action taken by the customer, for example they refused the collection or didn't have sufficient funds to make the payment.

These failures are some of the most common. When you receive one, you should discuss the situation with the payer and, when they are happy, submit the payment again.

Reason Code	Description	More details	Action required
AM04	Insufficient funds	The payer's bank could not pay the Direct Debit due to insufficient funds.	Contact the customer to ensure they add funds to their account and resubmit the payment.

MS02	Debtor refuses collection	The debtor refuses this particular collection. This code may be recieved pre- or post-settlement, depending on how quickly the debtor bank responds to the refusal.	Contact your customer.
MS03	Reason not specified	One of the most common error codes. Often used when banks choose not to issue more specific reason codes, such as MD07 and AM04, for data protection reasons.	Contact your customer.

Disputed or unauthorised transactions

These codes notify you that a customer has requested a refund from you for a disputed or unauthorised transaction. They are accompanied by a Refund message. The funds will automatically be debited from your bank account on the same day that you receive the message.

Reason Code	Description	More details	Action required
MD06	Disputed authorised transaction	Your customer has claimed a refund for an authorised transaction (Core scheme only). May be received up to 8 weeks after settlement.	Contact your customer.

| MD01 | No valid mandate or unauthorised transaction | When received with a Refund failure message, the customer has requested the funds back claiming this was an unauthorised transaction. May be received up to 13 months after settlement. | Contact your customer for further details. |

Receiving messages with GoCardless

Understanding and responding to these messages is crucial to collecting SEPA Direct Debit payments.

GoCardless deals with all the complications involved in communicating with the banks for you. We receive any payment reports or failures from the bank and then use this information to update the payment statuses in your dashboard.

If a payment failure message is received we will immediately send a notification email to both you and your customer. This email will set out the reasons for failure to enable us to work with you and your customer to solve any issues and then resubmit the payment.

To find out more about collecting SEPA Direct Debits or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Chapter 5 – SEPA compliance

Online payment pages

This practical guide will help you with the compliance requirements for offering SEPA Direct Debit on your website.

The SEPA Direct Debit scheme allows businesses to enter into Direct Debit agreements with their customers online. Before going ahead with taking payments, it's important to be aware of the scheme's requirements for the content and formatting of online payment pages.
With GoCardless you'll be able to offer your customers fully compliant online payment pages which are created on your behalf.

Designing your own custom payment pages can help ensure a seamless brand experience throughout your customer's payment journey. With **GoCardless Pro** you'll be able customise your online payment pages. We'll work with you to build compliant payment pages and give final sign off once they're ready.

In this guide, we'll show you how to create perfect (and fully compliant) payment pages for use with your customers by following these 4 steps:

Step 1: Host your payment pages with HTTPS

Step 2: Collect the customer's details

Step 3: Display the SEPA Direct Debit electronic mandate before submission
- Display the necessary information in the mandate form
- Include a legal text
- Agree to a timeline for pre-notification

Step 4: Confirm that the Direct Debit payment has been set up
- Confirm the successful Direct Debit setup
- Display the name that will appear on the bank statement
- Give the Unique Mandate Reference to the payer

If your website is in English, you may keep it as your default language. If you need to translate to another language, you must use the official translation to European languages available on the European Payments Council website.

Step 1: Host your payment pages with HTTPS

Configure your website to only accept secure (**SSL**) connections to ensure customer details are transmitted securely.

Step 2: Collect the customer's details

Example Company

Set up a Direct Debit mandate with Example Company

First name

Last name

Email

Country

France

Account holder name

IBAN

e.g. FR14 2004 1010 0505 0001 3M02 606

Or enter local details

Continue

- First Name

- Last Name

- Account Holder Name

- IBAN (or local details)

Optionally, you may also want to collect the customer's **email and address** as there are notification requirements before payment is taken under a SEPA Direct Debit.

Step 3: Display the SEPA Direct Debit electronic mandate before submission

Display the necessary information in the mandate form

Don't forget to include:

- The **heading**: "SEPA Direct Debit Mandate"
- Your **creditor information**: Creditor Identifier, Name, Address
- The **customer information**: Account Holder Name, IBAN

- **SEPA information**: Unique Mandate Reference placeholder (to be generated after SEPA-confirmation-reference), Date of signing

Include a legal text

The following legal text must also be included in the mandate and must not be changed (except for the input of the creditor name):

"By signing this mandate form, you authorise (A) (NAME OF CREDITOR) to send instructions to your bank to debit your account and (B) your bank to debit your account in accordance with the instruction from (NAME OF CREDITOR).
As part of your rights, you are entitled to a refund from your bank under the terms and conditions of your agreement with your bank. A refund must be claimed within 8 weeks starting from the date on which your account was debited. Your rights are explained in a statement that you can obtain from your bank."

Agree to a timeline for pre-notification

You can include a statement in the screen: "By confirming, you are agreeing to be pre-notified X calendar days before a charge."

The pre-notification period must be **no longer than 14 days before** the payment. Best practice is to send pre-notifications three days before.

Once a customer has confirmed the electronic mandate, you should create a timestamp of the transaction and store their IP address or a log of the transaction.

Step 4: Confirm that the Direct Debit payment has been set up

SEPA Direct Debit setup successful

GoCardless will appear on your statement when this SEPA Direct Debit is used.
Your mandate reference is VSMA53C.

- **Confirm the successful Direct Debit setup**
- **Display the name that will appear on the bank statement**
- **Give the Unique Mandate Reference to the payer**

Display the mandate on the **payment confirmation screen**. It is best practice to add a link to a PDF copy of the mandate in the appropriate language.

Alternatively, you can show it **in the confirmation email**. It is best practice to add your contact details and a PDF copy of the mandate in the appropriate language or a link to it.

Important: confirmation of the setup of your Direct Debit Instruction to Example Company.

Example Company can now collect payments from you by Direct Debit.

We will notify you via email 3 days in advance each time you are charged.

Payments will be debited from your bank account ******52 (Bank of Ireland) via Direct Debit, and will appear on your bank statement as **Example Company** ref: VSMA53C, creditor identifier GB18ZZZSDDRBOS00543381.

SEPA Direct Debit and GoCardless

GoCardless is an end-to-end SEPA Direct Debit provider and can completely handle SEPA compliance on your behalf, or guide you through your own custom integration.
GoCardless offers off-the-shelf payment pages (pay-sandbox.gocardless.com/AL000000AKFPFF) that:

- are fully scheme rules compliant

- allow payers to enter local details, rather than their IBAN

- have been translated into six different languages (and automatically detect your customer's language)

- can be customised with your business name and logo

Alternatively, if you want to design and host your own payment pages you can use the GoCardless Pro API to do so, and your Account Executive will support you during your implementation of the SEPA compliance guidelines.

To find out more about collecting SEPA Direct Debit payments, or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Sending pre-notifications

This practical guide will help you to send compliant SEPA Direct Debit pre-notifications.

A pre-notification informs your customer when they can expect a single payment or regular subscription to leave their account. It is a mandatory requirement of SEPA Direct Debit, and can be sent by email, phone, via SMS, with an invoice or in a letter.
To create fully compliant pre-notifications, you will need to:

- Inform the customer with the appropriate notice period

- Include the amount, due date, mandate reference and creditor ID

- Include your contact details

Throughout this guide the examples are take from the GoCardless pre-notification emails.

1. Email the customer with the appropriate notice period

Why? Gives the customer the chance to ensure they have sufficient funds

How? Send the pre-notification X calendar days, as agreed when the customer set up their mandate, before the payment leaves their account
The pre-notification period agreed with your customer must be no longer than 14 days before the date that the payment is charged. Best practice is to agree to send pre-notifications three working days in advance.

2. Include the amount, due date, mandate reference and creditor ID

Why? Helps ensure the customer recognises the charge on their statement

How? Either send an email before each payment, or give details up front for a fixed subscription
For recurring direct debits of the same amount, such as subscription plans, you only need to inform the payer before the first Direct Debit collection if you include details of all future charge dates (e.g., "first working day of each month"). A new pre-notification is then only necessary if the amount or frequency changes.

Example of a pre-notification for a one-off or recurring variable amount:

SEPA
Single Euro Payments Area

Hamilton Enterprises is charging you €100.00

We will debit your bank account ******52 (Bank of Ireland) by Direct Debit on or shortly after **June 15, 2015**.

This payment will appear on your bank statement as **Hamilton Enterprises**, ref: 56YBS9G-HAMILTON, creditor identifier 543381.

Example of a pre-notification for a recurring amount with multiple collection dates:

SEPA
Single Euro Payments Area

A subscription of €50.00, monthly until June 2, 2016 on the 1st day of the month has been set up to Hamilton Enterprises.

The first regular payment for this subscription will be debited from your bank account ******52 (Bank of Ireland) via Direct Debit on or shortly after **July 1, 2015**. The last payment will be taken on **June 2, 2016**.

Payments for this subscription will appear on your bank statement as **Hamilton Enterprises**, ref: 56YBS9G, creditor identifier 543381.

3. Include your contact details

Why? Makes it easy for the customer to contact you with any queries

How? Include a snippet in each email with your address

SEPA Direct Debit and GoCardless

GoCardless is an end-to-end SEPA Direct Debit provider and can completely handle SEPA compliance on your behalf, or guide you through your own custom integration.

GoCardless can send compliant emails for SEPA Direct Debit on your behalf. We cover all major European languages and automatically send emails in the language of the payer. We automatically send emails three calendar days before a SEPA Direct Debit collection.

If you wish to send your own emails, you can do this with GoCardless Pro. Your Account Executive will support you during your implementation of compliance guidelines.

To find out more about collecting SEPA Direct Debit payments or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).

Telephone mandates

This practical guide will help you to set up SEPA Direct Debit mandates over the phone.

The organisation responsible for the oversight of SEPA Direct Debit, the European Payments Council (EPC), states in a clarification letter (europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/epc-clarification-paper-on-the-use-of-electronic-mandate-solutions/epc033-15-clarification-paper-on-the-use-of-electronic-mandate-solutionspdf/)
that a mandate is the expression of consent between a payer and a company without specifying the specifics of how consent must be given. That allows merchants to set up SEPA Direct Debit mandates over the phone, as long as they record the consent given in accordance with the relevant national legislation.

The following guidance is from the Irish Payment Services Organisation (IPSO) (ipso.ie/section/SEPADirectDebitsSDD) and applies to SEPA Direct Debit in Ireland. GoCardless can advise on its applicability to other countries, as well as scripts for other languages.

To create fully compliant telephone mandates, you will need to:

1. Record and store the phone conversation

2. Adhere to a telephone mandate script

3. Send a confirmation letter by email or mail

1. Record and store the phone conversation

Why? Keep a trace of the telephone mandate

How? Agree with the payer that the call will be recorded
You will need to store the audio files securely up to 36 months after the final Direct Debit collection, or up to 13 months after a mandate is cancelled by the payer.

2. Adhere to a telephone mandate script

Why? Establish a telephone mandate

How? Follow a defined script

The following script is provided by the Irish Payment Services Organisation:

After the payer has agreed to pay by SEPA Direct Debit the following script should be used:

- Representative: *Thank you for agreeing to pay by SEPA Direct Debit. I can now set up your mandate over the phone. Would that be helpful?*

Payer agrees.

- Representative: *OK that's fine. Now I just need to record your bank account details. Could I please have your name and your IBAN. These can be found on your Bank Statement.*

Payer gives information.

- Representative: *Please confirm that you are authorised to allow direct debits to be collected from this account.*

Payer does not confirm: Close call and request different method of payment.

Payer confirms.

- Representative: *Can you confirm that the account can accept direct debits?*

Payer does not confirm: Close call and request different method of payment.

Payer confirms.

Payer is unsure: Ask if they have used this account to make direct debit payments before.

- Representative: *Now that we have recorded your bank details is there a particular day of the month you would like the money to come out of your account, for instance just after you have been paid?*

Payer agrees on most suitable day or has no preference.

Representative: *We will advise you in advance of the date and amount that will be collected. This notification will be provided by notifying you of the amount(s) and date(s) of a series of payments or through a monthly / bi-monthly bill / invoice. You will receive this notification 3 days in advance of the collection date. We will send you this notification via post, email or text. Could you confirm / give your address, email or telephone number?*

Payer gives the relevant contact information

- Representative: *That's it, you have set up your SEPA Direct Debit Mandate. You will be sent confirmation of this agreement (via post or email) within 3 working days of this phone call. In the future, if there is a change to the date, amount or frequency of your Direct Debit, we will notify you in advance*

of your account being debited (confirm how notification will be made via post, email or text).

- Representative: *You can cancel a Direct Debit at any time by writing in good time to (the Company name) and informing your bank (by whatever means is acceptable by your bank).*

- Representative: *Now I just want to confirm your Bank account details. Your account name is ABC, your IBAN is xxxxxxxxxxxxxxxxxx. Is that correct?*

Payer agrees.

- Representative: *That completes the setting up of your Direct Debit mandate. If you have any other queries please contact us.*

3. Send a confirmation letter by email or mail

Why? Ensures the customer understands that a SEPA Direct Debit has been set up

How? Send shortly after phone conversation

- Your confirmation letter must:
- Include the mandate reference
- Link to the SEPA Direct Debit Mandate or have this attached
- Include your contact details

An example confirmation email and PDF mandate, as used by GoCardless, is below:

SEPA
Single Euro Payments Area

Important: confirmation of the setup of your SEPA Direct Debit Mandate to Hamilton Enterprises.

Hamilton Enterprises can now collect payments from you by Direct Debit.

We will notify you via email 3 days in advance each time you are charged.

Payments will be debited from your bank account ******52 (Bank of Ireland) via Direct Debit, and will appear on your bank statement as **Hamilton Enterprises** ref: 56YBS9G, creditor identifier 543381.

GoCardless

338-346 Goswell Road,
London, EC1V 7LQ

SEPA Direct Debit Mandate

Name of account holder

AMAURY DE CLOSSET

Creditor Identifier

GB18ZZZSDDRBOS00275069

International Bank Account Number (IBAN)

••••••••••••••••

Reference (for office use)

AMAURYDECLOS-0Z7N0

Bank Identifier Code (BIC)

••••••••••••••••

By signing this mandate form, you authorise (A) GoCardless to send instructions to your bank to debit your account (B) your bank to debit your account in accordance with the instructions from GoCardless.

Your full postal address

As part of your rights, you are entitled to a refund from your bank under the terms and conditions of your agreement with your bank. A refund must be claimed within 8 weeks starting from the date on which your account was debited.

Signature

Digitally signed

Date

2014-10-08

Your rights regarding the above mandate are explained in a statement that you can obtain from your bank.

SEPA Direct Debit and GoCardless

GoCardless Pro enables you to do phone SEPA Direct Debit and capture mandate information directly in your systems. Our Account Executive will support you during your implementation of compliance guidelines for telephone mandates.

GoCardless can send compliant confirmation emails after a telephone mandate has been set-up. We cover all major European languages and automatically send emails in the language of the payer.

To find out more about collecting SEPA Direct Debit payments or to register your interest with GoCardless, check out our GoCardless Europe page (gocardless.com/europe/).