SEPA and Uncle Sam

THE SINGLE EURO PAYMENTS AREA IS COMING IN 2014, BUT ARE US COMPANIES READY FOR IT? MIKE GALLANIS AND STEVE WILEY INVESTIGATE

Few pieces of legislation taking effect over the next year will have greater impact on day-to-day treasury operations than the Single Euro Payments Area (SEPA). SEPA is both an opportunity and a risk for US corporates. The opportunity is for treasury teams to consolidate their banking relationships in Europe and increase straight-through processing. But operational risk could increase significantly if compliance is not achieved by the end date of 1 February 2014.

In this article, we outline the US perspective on SEPA, including the different approaches US companies are taking to comply with SEPA and their treasury teams' degree of readiness for the legislation. To better understand US corporates' level of preparedness and strategic efforts to comply with SEPA, Treasury Strategies conducted a short survey of corporates earlier this year, the results of which are referenced throughout this article.

The US perspective

Nearly half (48%) of survey respondents reported that their organisations will be either materially or moderately affected by SEPA (see Chart 1, opposite). But despite SEPA affecting so many US corporates, the subject has, surprisingly, stayed off the radar for many companies to date. The survey results displayed in Chart 2 indicate that a quarter of US companies impacted by SEPA have made no significant progress in making the changes required for compliance. European corporates fare only slightly better, with 21% claiming they are affected by SEPA, but having made no significant progress. Overall, nearly a quarter of US corporates are completely unfamiliar with the compliance requirements.

The US companies that are most likely to be SEPA-ready are large multinationals with regional or global shared service centres (SSCs)/payment hubs in Europe. Nevertheless, many corporates that fit this description have not begun SEPA compliance projects at all. Factors that have contributed to this lack of attention include competing initiatives (cited by 30% of survey respondents), resource limitations (27%) and a lack of in-house expertise (22%). But with reality setting in and the SEPA end date fast approaching, US treasurers are beginning to realise that it is time for action.

To begin with, treasury teams are trying to understand the overall impact that SEPA will have on their company, which is broadly determined by two key factors:

1. The company's footprint and structure in the eurozone, including its core financial operations as well as its customer base and suppliers.

2. The corporate's financial systems environment.

The survey respondents who said that they will be materially or moderately affected by SEPA (48%) may have operations, customers or financial transactions in the eurozone.

US companies with treasury centres or subsidiaries in Europe will probably have the most work to do. They must liaise with individual business units to identify banking partners, processes and transactions that will be affected by SEPA. For corporates with many stand-alone subsidiaries in Europe, this could be a large undertaking, requiring dedicated resources to achieve timely, organisation-wide compliance.

Clearly, SEPA will have a much lesser impact on corporates with a modest presence in Europe, or with purely domestic financial operations. But these organisations should still perform due diligence on SEPA. Even if a company has just one bank account in Europe with minimal financial activity, it may need to pay attention to compliance.

DIFFERENT APPROACHES TO SEPA IN THE US

◆ One Fortune 500 multinational in the manufacturing sector has approached SEPA in a way that reflects its decentralised organisational structure. Individual business units in the affected regions will be responsible for SEPA compliance. This decentralised approach is not unusual for companies where local treasury oversight is limited. But the problem with it is that there may be insufficient support and control mechanisms to assist with, and ensure, compliance. So there is a high risk of partial compliance.

◆ A large global healthcare management company headquartered in the US has a more centralised approach to managing its SEPA compliance. It makes payments in around 50 countries and, notwithstanding SEPA, frequently encounters issues related to accommodating local payment format changes. Although payment responsibility is decentralised, and multiple payment systems are used, an SSC in Europe has been given central responsibility for ensuring that the organisation is SEPA-ready in 2014. By taking a centralised approach, the company is more likely to achieve organisation-wide compliance. But there is still a risk that it might overlook business units outside Europe that may be affected by SEPA.

A company's financial systems environment will also affect the degree to which SEPA changes have to be made. Compliance efforts may be minimal if the company just uses online banking platforms for making payments in the eurozone and not a treasury management system, enterprise resource planning system or batch data. This is because all banks in the region must also comply with SEPA formats. Some changes will still be required, however, even if the corporate initiates payments through their banks.

US treasury teams that are in the process of complying with SEPA have been frustrated by having to learn and comply with format and informational changes. This is probably a result of the complex requirements, resource constraints and lack of in-house expertise mentioned previously. The main changes are:

- Payments made within Europe must be reformatted and also include additional data;
- Payment formats must comply with ISO20022, the new format for all low-value and wire payments made within the euro payment zone; and
- Payments from the US to Europe must now include an international bank account number. Previously, this was only required for payments that originated in Europe.

For US corporates already using SWIFT to send payments, it is likely the transition will be easier, as the ISO20022 format is also the global SWIFT MX message standard.

It is not uncommon for large US corporates, especially those that have grown through acquisition, to be decentralised overseas and have different systems in use within each subsidiary. These companies, which have a multitude of European payment systems, will have their hands full complying with SEPA. Each individual system must be reconfigured, thoroughly tested and transitioned to the new standard. Many US-owned subsidiaries in Europe will rely on their corporate centre to provide the leadership and resources to comply with the new standards. In this scenario, US corporates must be proactive about leading the SEPA charge in order to ensure global compliance within their organisations.

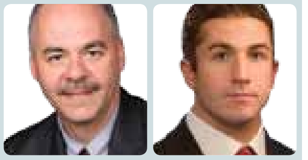
Who leads on SEPA?

Our research revealed that in more than half of companies (52%) treasury is leading SEPA compliance projects in the US. But more than a quarter (28%) of organisations have not yet decided who will lead their project. Compliance should start with formal creation of a company-wide SEPA initiative, backed by the senior executives and run by a SEPA-knowledgeable team, including treasury and IT, which can bring in third-party experts where necessary.

Most companies will not be able to achieve full SEPA compliance by relying on in-house skills alone. One respondent to our survey commented: "Treasury is leading the SEPA initiative, along with a third-party SEPA expert."

Call to action

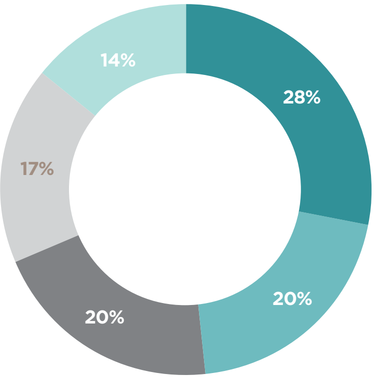
The time for US corporates to focus on SEPA is now. Companies that are not fully prepared for migration at the end of this year will enter a disaster-recovery scenario, where performing the basic payment functions in treasury becomes painful and operational risk increases exponentially. A high number of payment rejections will lead to damaged banking and vendor relationships, along with longer hours for company employees struggling to repair these rejections. Our advice is: "Don't be that company – act now to comply with the new SEPA requirements."



Mike Gallanis CTP is a partner and Steve Wiley is a manager at Treasury Strategies. For more, visit www.treasurystrategies.com

CHART 1

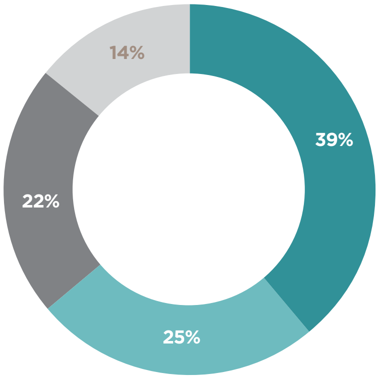
Which statement best describes the effect of SEPA on your firm?



- We will be materially affected
- We will be moderately affected
- Not sure, although we do make European payments
- Little to no effect, as we expect our banks will make all needed changes
- Little to no effect, as we make very few European payments

CHART 2

How would you characterise the progress your organisation has made in reaching full SEPA compliance?



- Moderate progress
- We are impacted by SEPA, but have made no significant progress
- None – we are not impacted by SEPA
- Fully compliant