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“CLASSIFICATION OF EURO PAYMENTS AS NATIONAL OR CROSS-BORDER”

1. Introduction

The purpose of this paper is to define a consistent approach across all EU Member States for the classification of euro payments as national or cross-border.

2. Scope

The procedures described in the Guidelines are **strongly recommended** for all euro denominated payments executed as individual payments between banks in the European Union.

3. Background

Banks with subsidiaries in more than one EU country are generally direct members of different national RTGS systems. With TARGET2, these national RTGS systems will be closed down and TARGET2 will be a facilitator for consolidation of payment flows by allowing banks to utilize a single entry point into the new pan-European RTGS system, rather than continuing to maintain direct membership in different countries.

In addition, banks who do not wish to become direct members of a clearing infrastructure may choose to become indirect participants or to be registered as “addressable” by using the services of a direct member from the same EU Member State or another EU Member State.

These new opportunities also create a challenge, as existing national payments may be routed through banks located in different EU Member States. As long as there are different market practices between national and intra EU cross-border payments, banks must ensure that national payments will remain classified as national, and not as cross-border.

In an environment of consolidated clearing access, the use of the sender and receiver BIC in the SWIFT FIN message header to classify payments as national or cross-border is no longer sufficient and would cause business issues, as national payments routed through banks located in different EU Member States would be incorrectly classified as cross-border.

4. Guidelines for classification

Banks in the EU should classify individual euro payments according to the following Guidelines:

“If the originating bank country code¹ and the beneficiary bank country code represent the same EU member state², then for treatment by the beneficiary bank, the payment is classified as ‘national’. Otherwise, the payment is classified as per today’s national practice.”

Consequently, the fields to be inspected as ‘originating bank’ and ‘beneficiary bank’ are the following:

- **For all payments (MT103 and MT 202)**
Originating Bank: Field 52 (option ‘A’) if used, otherwise the sender information from the SWIFT message header. As per SWIFT rules, Field 52 must be used only if it is different from the Sender. If field 52 is provided, it must state the bank or branch where the initiator’s account is held.
- **For commercial payments (MT 103),**
Beneficiary Bank: Field 57 (option ‘A’) If this field is not present, then the receiver information from the header should be used.
- **For bank to bank payments (MT 202)**
Beneficiary Bank: Field 58 (option ‘A’)

5. Recommendation on use of option ‘A’

Furthermore, it is **strongly recommended** that option ‘A’ is used in the above fields, in order to facilitate the automation of the national/cross-border euro payments classification.

In case option ‘D’ is used, the receiving bank is not obliged to distinguish between domestic and cross border treatment.

6. Obligation of transmission of field 72 or header field data

In order to ensure a level playing field for all, banks providing the indirect connection to TARGET2 to other banks must ensure that national payments will be treated as national. It is still practice, that some national communities use “national code-words” in field 72 or use SWIFTnet FIN header fields (e.g. field 108 / 113) to support local needs.

The direct provider of an indirect / addressable participant must forward local code-words and must not consider these code-words as an STP stopper or a data to be repaired.

¹ 5th and 6th characters of the BIC, forming a two letters ISO 3166-1 country code

² Some EU Member States like France are represented by more than one ISO country code

Since these local specific conditions are hindering the entire European banking community from achieving a harmonised European payment environment, this obligation should be restricted to existing scenarios, i.e. not allowing for implementation of additional national specificities. Furthermore it will be subject to a review in 2010.

Communities using national code-words or flags should analyze the need for these local specific conditions, aiming for standardized fields to transmit the required data.

7. Implementation

The above Guidelines should be implemented by all banks in the European Union by the first business day after the last country migration window, but must be implemented by end of 2008.



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