# SMART2

SCT Inst Migration Action Round Table

# How beneficiary PSPs should react to transaction hits in SCT Inst

## SMART2 recommendations – version 1.0 of 25/10/18

**Background**

As described in the outcome document of the AMI-Pay workshop of 12 March 2018[1], EU regulations concerning embargos or other financial sanctions oblige PSPs to carry out checks before executing transactions.

Such checks may need to be carried out by the beneficiary PSP even if the originator PSP has already carried out checks, in particular in the case of cross-border transactions since there may be differences between the lists that are applied in different countries.

As laid out in the AMI-Pay workshop of 12 March 2018, the short timelines of SCT Inst transactions do not allow the beneficiary PSP sufficient time to investigate whether a hit (=a filtering alert) is truly positive or not before it has to confirm to the originator PSP whether it can accept the transaction. To support PSPs in optimally managing their SCT Inst processing and customer communication, it is important that certainty on whether or not a transaction can be executed is provided as quickly as possible.

The AMI-Pay workshop outcome summary proposed the following approach for the short term: beneficiary PSPs should reject SCT Inst transactions in the case of a potential hit, possibly with a specific reason code. This black-or-white approach would provide clarity to the end-users involved about the (final) status of the transaction, but it would also lead to a higher reject rate. The use of a specific reason code may alleviate some of the consequences of this, since it would allow the originator PSP to suggest sending the transaction as an SCT instead.

SCT Inst Scheme adherents or applicants can find further guidance on this approach in the EPC SCT Inst Rulebook's Risk Management Annex, which they can request from the European Payments Council.

**Recommended procedure**

Participants in the SCT Inst Migration Action Round Table (SMART2) support the short-term approach proposed as an outcome of the AMI-Pay workshop as well as the EPC guidance. The endorsing PSPs recommend that this approach should be put into practice as follows by beneficiary PSPs faced with a transaction screening hit, subject to applicable national legal and regulatory obligations and contractual obligations to their customers:

1. A transaction screening hit at beneficiary PSP level should lead to an immediate reject of the affected SCT Inst transaction by the beneficiary PSP.

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[1] "12 March 2018 AMI-Pay workshop on issues related to instant payments – outcome": https://www.ecb.europa.eu/paym/initiatives/shared/docs/ae124-ami-pay-2018-04-17-ami-pay-item-05-ami-pay-workshop-on-instant-payments-outcome.pdf

2. When rejecting the SCT Inst transaction, the beneficiary PSP should consider using the reject reason code AG01 ("Credit transfer forbidden on this type of account.") with the interpretation "Beneficiary Customer payment account is NOT reachable for SCT Inst, can be reached via regular SCT without guarantee of a successful execution."[2] This would allow the originator PSP to either automatically resend the transaction as an SCT transaction or to suggest to the originator to do so, depending on the arrangement the originator PSP has with its customer.

In addition, the beneficiary PSP is encouraged to continue the investigation of a hit after the transaction has been rejected (as it most probably already does due to the related reporting obligations). This is done for the benefit of the self-learning tools used in the screening process and should help to bring down the number of false hits in the longer run.

As instant payment processing is still in its ramp-up phase and the number of SCT Inst Scheme adherents continues to grow, the above recommendations should be reconsidered and potentially evolved in line with any insights gained from the widening experience with the handling of SCT Inst transactions across Europe.

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**List of endorsing AS-PSPs**

This note has been created by participants in the SCT Inst Migration Action Round Table (SMART2), an infrastructure-agnostic forum aimed at dealing with issues of an operational nature impacting a smooth end-to-end execution of instant payments in SEPA that might benefit from joint analysis and exchange.

For more information about SMART2, please consult:

https://www.abe-eba.eu/market-practices-regulatory-guidance/sct-inst-migration-round-table-smart2/

The note has been endorsed by representatives of the following account-servicing payment service providers (AS-PSPs) operating in Europe:

Banco BPM
Bank of Ireland
BCEE
BIL
DZ BANK
ERSTE Group AG

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[2] This approach is also supported by the *EPC guidance document on SCT Inst R-transaction reason codes*, which includes the following suggested action for reason code AG01: "Originator Bank to re-initiate the credit transfer as a SCT transaction if agreed earlier between the Originator and the Originator Bank." (see EPC059-18 v1.0, chapter 3, page 3; document available for download at https://www.europeanpaymentscouncil.eu/document-library/guidance-documents/guidance-reason-codes-sepa-instant-credit-transfer-r)

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GDS Cusa – Caixabank
J.P. Morgan
KBC
Nordea
Raiffeisen Bank International AG
UniCredit Bank AG

**Contact details**

For any comments or questions concerning the above note, please contact the Secretariat of the SCT Inst Migration Action Round Table at association@abe-eba.eu.