EU Payments reporting
How to respond to the challenge of the Central Electronic System of Payments (CESOP) requirements
New rules will require Payment Service Providers (PSPs) in the EU to report cross-border payments on a quarterly basis.

- Information will be shared automatically within the EU to target VAT compliance on cross-border payments. There is potentially a significant compliance impact on payees as a result of information which is reported to tax authorities.
- Also captures payments made from inside the EU to outside the EU. Where payments are made outside the EU, obligations may fall to those who don’t have full information on payees.
- Rules have substantial similarities to those adopted for FATCA/Common Reporting Standard (CRS) requiring the identification, classification and reporting of customers.
- Other rules for digital platforms, cryptocurrency and e-money are being introduced. Many institutions may find they are in more than one regime.
- Reporting requirements start from 1 January 2024 and reports must be filed within 30 days of the end of the calendar quarter, i.e. first reports are due in each member state by 30 April 2024.

CESOP – What is in scope?

A PSP will have to report payments on a quarterly basis where they meet all of the following criteria:

1. **They provide payment services in an EU Member State:** this includes legal entities, PEs and passported services.
2. **A payment is made which is an in scope payment type:** broadly all payments covered by the second Payment Services Directive (PSD2) are in scope – such as credit transfers, direct debits, credit cards, e-money and remittances, but not payments linked to securities service – e.g. dividends, stocklending, repos etc.
3. **The payer is in the EU:** typically determined by the country identifier in the payer’s IBAN, additional work may be required to exclude cross-border accounts.
4. **The payment is cross-border:** from one EU Member State to another EU Member State or to a third country.
5. **More than 25 cross-border payments are made to a payee in a calendar quarter:** the payments can be from any payer to the payee, and where the payee has multiple accounts, the PSP must aggregate these for the purpose of this calculation.

Reporting is required for all payments identified above **unless** the PSP provides services to the payer only **and** the payee’s PSP is also in the EU.
### Affected PSPs and services

<table>
<thead>
<tr>
<th>Service</th>
<th>Report</th>
<th>Where?</th>
<th>Who?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Merchant acquirer</strong></td>
<td>Payments received by merchants or aggregators, originating from other EU states</td>
<td>Member State where services provided to merchant (based on PSD2 passport)</td>
<td>Acquiring entity</td>
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<tr>
<td><strong>Payment facilitation</strong></td>
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<tr>
<td><strong>Card issuer</strong></td>
<td>Payments from EU payees to non-EU recipients</td>
<td>Member State where services provided to payer (based on PSD2 passport)</td>
<td>Issuing entity</td>
</tr>
<tr>
<td><strong>Banking payments out</strong>&lt;br&gt;(SEPA credit transfers and direct debits)</td>
<td>Payments from EU payees to non-EU recipients</td>
<td>Member State of bank or branch holding sender’s account</td>
<td>Bank of sender where payments made outside EU</td>
</tr>
<tr>
<td><strong>Banking payments in</strong>&lt;br&gt;(SEPA credit transfers and direct debits)</td>
<td>Payments to recipients originating from other EU states</td>
<td>Member State of bank or branch holding recipients account</td>
<td>Bank of recipient where payments made inside the EU</td>
</tr>
<tr>
<td><strong>e-commerce</strong></td>
<td>Payments received by merchants or aggregators, originating from other EU states</td>
<td>Member State where services provided to business (based on PSD2 passport)</td>
<td>Acquiring/Payment Facilitation entity</td>
</tr>
<tr>
<td><strong>e-money</strong></td>
<td>Payments from EU payees to non-EU recipients, and internal payments from EU to EU customers</td>
<td>Member State where services provided to recipient (if in EU), or sender</td>
<td>E-money provider</td>
</tr>
</tbody>
</table>

### Where do PSPs report

Under PSD2, there are broadly three options for how you provide services across multiple jurisdictions:

1. **Cross border services:** typically used by banks only (credit institutions). In which case, you would report solely in the location of Head Office.

2. **Permanent Establishment (PE):** common for banks, particularly for non-EU banks where passporting may not be permissible. Report in the location of the PE.

3. **Passporting:** available under PSD2 subject to notification requirements to the local regulator. Typically done where you will be soliciting clients in the host country, or where you have a physical presence not amount to a PE. Report in the location of the passport, based on the residence of the customer.

As a result of the above, many PSPs other than banks may have to report in a large number of jurisdictions, and in some cases, will need to file separate reports in all 27 Member States – a total of 108 tax reports per year.
Seven key data questions

1. **Can you identify** all of the payment channels used?

2. **Can you associate** payments with legal entities and branches across the EU to enable reporting in the correct member state?

3. **How will you source data** for all payment channels and where necessary for intragroup transfers. What data staging is already available?

4. **Where will you run** the aggregation and classification rules to identify reportable payments?

5. **How do you address the payer reporting problem** – requirement to aggregate payments across entire book made to non-EU PSPs?

6. **Do you have all of the required customer static data** ready for reporting. Is it complete, or is there missing mandatory information that might indicate PSD2 compliance issues?

7. **How will you report** in multiple member states, in the local required format (xml variant)?
Data requirements

Organizations will need to quickly define their target data model and to-be systems architecture – identifying the data sourcing requirements and the suitable environment for transform and load capabilities.

Data sourcing

Data may need to be pulled from a range of different systems to support reporting which may include payments messaging systems, transaction data and customer static data. The 15 basic data elements are as follows:

<table>
<thead>
<tr>
<th>Report for every transaction</th>
<th>Messaging data</th>
<th>Transaction data</th>
<th>Customer data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BIC/ID reporting PSP (i.e., identifying no. for the PSP)</td>
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<tr>
<td>2. Payee name</td>
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<td>3. Payee VAT/TIN</td>
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<tr>
<td>4. Payee Account ID (IBAN)</td>
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<tr>
<td>5. BIC/ID Payee PSP</td>
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<tr>
<td>6. Payee address</td>
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<td>7. Refund</td>
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<tr>
<td>8. Date/time of the execution of the payment transaction/refund</td>
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<tr>
<td>9. Amount</td>
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<tr>
<td>10. Currency</td>
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<tr>
<td>11. Member State origin payment</td>
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<tr>
<td>12. Member State destination refund</td>
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<tr>
<td>13. Payer location information (i.e. info used such as IBAN, address etc.)</td>
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<td>14. Transaction ID</td>
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<tr>
<td>15. Physical presence</td>
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</table>
How EY can help

1. Advisory and implementation support

With a short time until the first reports are due in April 2024, our teams can help to accelerate your implementation by helping you move quickly to functional requirements, data models and systems architecture, as well as supporting you with establishing reporting processes, governance and control.

2. Reporting services

CESOP may require you to report in up to 27 Member States. EY can support you with preparing your reports using our proprietary software, EY FIRST and submitting those reports in each quarter where we are permitted to do so by local tax authorities.

3. Full outsource

Provide EY with all of your payments data and we can support you with the following in addition to reporting:
- Data transformation and removal of non-reportable payments
- Aggregation and fuzzy matching for payees
- Taxpayer Identification Number (TIN) validation checks
- Data quality checks
- Data governance and control

Developing and monitoring XML schema requirements and validation rules in up to 27 Member States can be a significant undertaking.

EY’s proprietary tool, EY FIRST, is used by more than 300 clients globally for Automatic Exchange of Information reporting and can be used under license, SaaS or desktop models to support your reporting requirements.

4. Reporting tool license

EY Service Report

<table>
<thead>
<tr>
<th>CESOP Analytics</th>
<th>Overview</th>
</tr>
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<tbody>
<tr>
<td>2,595,193</td>
<td>36,002</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>CESOP Analytics</th>
<th>TIN validation</th>
</tr>
</thead>
<tbody>
<tr>
<td>36,002</td>
<td>5,829</td>
</tr>
</tbody>
</table>

E U Payments reporting
Implementation support

**Phase 1: Impact assessment**

**Key Considerations**
- Entity scoping – which entities are required to report, and in which jurisdictions?
- Data-led approach:
  - Identify data sourcing and ETL requirements.
  - Establish data staging and technology requirements.
  - Test data quality with EY analytics.
- Business processes:
  - Which roles within the business are affected?
  - Customer communications and strategy.
- Controls enhancement:
  - Could existing controls be leveraged?

**Deliverables**
- Impact assessment report and regulatory requirements for implementing CESOP.

**Phase 2: Design target operating model**

**Key Considerations**
- Governance framework for each business unit impacted.
- Determine business changes required.
- Establish clear data lineage and structure to support end-to-end oversight.
- Agree ownership and resource for report upload to tax authority portals and to retrieve scheme reference numbers where tax authorities issue.
- Define strategic approach to compliance.
- Identify resource (FTE) requirements, skills and training needs.

**Deliverables**
- Functional requirements document (FRD)
- Data dictionary
- Governance framework

**Phase 3: Implement**

**Key Considerations**

**Phase 4: Run**

**Activities**
- Transition into BAU operating model.
- Ongoing submission of reports in all Member States.
- Ongoing governance of the effectiveness of the controls put in place, with a view to facilitating the completeness of reporting on a reasonable-efforts basis.
- Reporting on an annual basis.
- On-going global regulatory change monitoring.

**Deliverables**
- Central policy and interpretation of the rules.
- Communication of requirements to relevant business units, with guidance which may be tailored.
- Training to affected front and back office staff.
- Develop business led change requests for data extraction.
- Implement data ruleset for filtering, aggregation etc.
- Approach to data remediation.
- Implement reporting mechanism.
- Process to monitor jurisdiction variations.

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**Today 31/12/2023**

**30/04/2024**
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