

Simple Remittance Requirements



Business Payments Coalition
Vendor Forum

May 2018

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Overview

The Simple Remittance Requirements initiative is a project of the Business Payments Coalition's Vendor Forum. The Business Payments Coalition (BPC) is a volunteer group of organizations and individuals working together to promote greater adoption of electronic business-to-business (B2B) payments, remittance data and invoicing. The Coalition's overarching goal is to make B2B electronic payments more efficient across the end-to-end process; that is, to achieve straight-through-processing. The Coalition accomplishes this objective by addressing problems and barriers that make it difficult for businesses to use electronic alternatives to paper checks and remittance advices.

The mission of the work group was narrow and targeted:

To define data needs for simple remittance information that can be easily adopted by small and medium size businesses (SMBs).

The group was tasked with identifying three or four levels of remittance data based on needs of SMBs, starting with the minimal, viable set of data needed for cash application and reconciliation, and incrementally adding data for two or three additional levels to accommodate different business capabilities. The group also reviewed data in existing remittance message standards (e.g. ISO 20022 and EDI X12) and data available in SMB accounting software. Data needs are payment-method agnostic and intended to facilitate B2B payments. As the group focused on data only, payment standards work and the remittance delivery method were out of scope.

This document presents the work product of the group as well as a glossary of relevant terminology. The source of the glossary is the Remittance Glossary developed by the BPC in 2013.

Stakeholders represented by the volunteer participants included payments service providers, consultants, payment systems providers, and standards organizations. The Federal Reserve Bank of Minneapolis facilitated the work group.

The intent of this work product is to:

- Highlight the needs of the SMB market segment
- Provide guidelines for minimum remittance data
- Document payment and remittance terminology for consistency and interoperability
- Serve as a foundational building block for other remittance efforts
- Serve as a resource for industry discussions

The work product is ***not intended*** to be used as a new data standard, nor does it include data structures, format or syntax for remittance strings. Practitioners building systems that send or consume remittance messages, however, may use it in defining a subset of an existing standard for improved interoperability and increased straight-through-processing.

What should different readers take away from this document? How would they use this information? The table below will help with those questions.

If you are...	Key Take-away(s)	Possible outcome(s)
AP/AR service provider to SMB	Incorporate the fields based on the levels defined.	Provide capabilities for each level.
Software provider to SMB	Evaluate the data levels to determine which levels your products support.	Provide capabilities at one or more levels that include user interface design and data mapping to support the data.
System/application consultant to SMB	Understand the differences among the several levels of data content. Discuss the value of creating process flows needed to use the data.	Guide SMB clients to recognize and adopt data levels suitable for their use.
SMB accounting staff	Be aware that this guideline exists and how it can benefit your accounting process.	Ask if your providers have solutions that incorporate the data so it fits your business process.
A large company trying to improve straight-through processing with your SMB trading partners	Recognize the limits of your partners' capabilities and incorporate the data they can send or ingest.	Incorporate trading partner capabilities into your on-boarding process.

Background

SMBs have a variety of challenges with sending and receiving electronic payments, which are widely known in the payment industry. Data needed to accurately apply cash to Accounts Receivable balances (cash application) is generally provided with checks, but may not be provided with electronic payments such as ACH or card payments. To facilitate automated processing, the data must be aligned from the Accounts Payable (AP) *and* Accounts Receivable (AR) perspectives so that AP software can send the information needed by AR software for cash application¹. There are several challenges that must be addressed to facilitate this alignment including a) accommodating the fact that the “desired” data may not be available in the systems or business processes used by SMBs, b) communicating those limitations, and c) correctly defining and interpreting the data that is exchanged.

SMB accounting software is less complex than ERP software in order to serve basic needs of SMBs, who generally don't have IT support for implementation and maintenance. SMBs are constrained by the capabilities of their accounting software, even when sending payments to or receiving payments from

¹ Throughout this document (except the appendix), the term “AP” refers to Accounts Payable, the buyer, and the payer. “AR” refers to Accounts Receivable, the supplier, and the payee.

large businesses. Identifying and documenting basic standard data elements can facilitate support by SMB accounting software and payment service providers.

The work group reviewed SMB accounting packages² to determine what data can be supplied with electronic AP payments and what data can be ingested for cash application to AR balances. *One outcome of the review is that terminology is inconsistent amongst software and service providers, so standard and consistent terminology is needed by the industry to assure interoperability.*

The work group reviewed data elements provided by existing standards, such as ISO 20022, Fedwire®, IFX, and EPN STP 820 (which is a subset of larger EDI X12 standards), to assure that data elements would be compatible with existing standards. These and other standards are generally too complex or too extensive for SMBs or SMB accounting software to adopt; however, it is important to be able to map data to and from a variety of standards specifications.

This work product is a building block for future initiatives to promote electronic remittance adoption, so that the needs of SMBs are considered in those efforts.

Three Remittance Data Levels

Electronic payments include basic payer information with the payment itself, such as payer name and other identifying information. Some of this information may be used in payment application. Additional information about what is being paid (remittance data) is needed to apply the cash to a customer account. The work group developed three levels of remittance data³ that apply to the majority of SMBs. The group focused on mainstream SMBs and did not consider specialty industries that have unique data needs. Specialty industry considerations could be addressed by a future initiative.

There are variations in billing practices and the data needed to apply cash based on billers' AR systems. Some billers don't use unique invoice numbers, but rather rely on a customer account number and billing date. This is widespread in the utility and telecommunications industries, for example. Other billers rely heavily on the invoice identifier to apply payments. *To recognize these variants, either (a) invoice number or (b) account number plus invoice date is required. Both invoice number and customer account number may be provided.*

1. The first level has the four minimum data elements that would be needed in most cases to apply a payment.
2. The second level adds information about discounts and adjustments and allows for additional information in the remittance.

² The group reviewed the most commonly used software: Intuit's QuickBooks, QuickBooks Online, Microsoft Dynamics Great Plains, Oracle NetSuite, Freshbooks, and Xero. There are other software packages available.

³ The term "data level" in this context should not be confused with "data levels" of credit card transactions, which may contain remittance data.

3. The third level is the EPN STP 820 transaction set, a standard developed by the Electronic Payments Network, the ACH processing business of The Clearing House. The NACHA standard CTX file format for ACH transactions accommodates STP 820. As originally envisioned when the STP 820 standard was developed, this level of data would generally be the most extensive set readily available to SMBs and is therefore the most detailed level defined in this document.

SMB accounting software and existing standards in the marketplace use different terminology. The data elements in the levels are defined in the [Terminology Appendix](#) for use in mapping data for consistency. Research into accounting software indicates that the data elements are widely supported.

The data elements for the three levels follow.

Note: STP 820 defines data elements in groupings called “segments”. Segments are generally identified by a three-letter abbreviation such as RMR, DTM, ADX and REF plus a numeric indicator. We include references to the specific data segment elements in the table (Figure 1) on the following page to facilitate mapping and to avoid repetition of definitions well-documented elsewhere. The STP 820 implementation Guide is available at <https://www.theclearinghouse.org/payment-systems/ach>.

RMR = Remittance Advice AR Open Item Reference

DTM = Date/Time Reference

ADX = Adjustment

REF = Reference Identification

Level 1		Level 2		Level 3 - EPN STP 820	
Invoice Number – and/or – Customer Account Number (see Note)	R	Invoice Number – and/or – Customer Account Number (see Note)	R	Reference Identifier (RMR02) – value, i.e. Invoice Number (see note)	R
				Customer Account Number (N104) – in name segment (see Note)	R
Amount Paid	R	Amount Paid	R	Amount Paid (RMR04) – the net amount	R
Invoice Date	O	Invoice Date	O	Invoice Date (DTM02)	R
				Reference Identification Qualifier (RMR01) – type of document	R
		Invoice Amount	O	Invoice Amount (RMR05) – the total or gross amount	O
		Discount	O	Discount taken (RMR06)	O
		Adjustment	O	Adjustment Amount (ADX01)	O
				Adjustment Reason Code (ADX02) – from a list of valid STP 820 codes	O
				Adjustment Identifier (ADX04) – descriptive data	O
		Other Reference Identifier	O	Reference Identifier Qualifier (REF01) – reference type from a list of valid STP 820 codes	O
				Reference Identifier (REF02) – option for a second reference value	O
		Description	O	Description (REF03)	O

Figure 1: In the table, R denotes the data is Required and O denotes the data is Optional.

Note: Either invoice number or customer account number is designated as a required data element. Both may be provided.

Multiple items may be included in one payment. The total amount paid is the sum of “Amount Paid” for all line items. For invoice items, the Amount Paid is positive; for credit memo items, negative.

The field *Other Reference Identifier* is not specifically defined. It is for AR and AP use as understood between the parties.

Uses and Examples

Remittance data provides detail in a number of payment scenarios, such as:

- Paying against an invoice
- Paying against a balance forward account
- Taking discounts
- Differentiating discounts vs. adjustments

The following examples illustrate remittance data only, not the “header level” or payment instruction data. The amount of payment is included for clarity.

Level 1 Examples

Level 1 has basic data only. *Businesses might use level 1 if they enter minimal information into their AP system.* Example A is a payment for an invoice, while Example B is a payment on account. Example C includes both invoice and account number.

	Example A	Example B	Example C
Total Payment Amount	\$291.77	\$291.77	\$291.77
Invoice Number	683525		683525
Account Number		123456	123456
Amount Paid	\$291.77	\$291.77	\$291.77
Invoice Date	02/11/2017	02/11/2017	02/11/2017

Level 2 Examples

Level 2 adds more information, including discounts, adjustments, and additional reference information. *Businesses that include such detail in their AP systems can include it with the remittance data.* Example A is a single invoice payment. Example B is a payment for two invoices, one of which has a discount, adjustment, and more reference information. Example C is a single invoice payment with a discount, adjustment and more reference information.

	Example A	Example B		Example C
Total Payment Amount	\$4,129.27	\$714.22		\$3,716.34
Invoice Number	683528	AB3947	AB3948	683529
Amount Paid	\$4,129.27	\$214.22	\$500.00	\$3,716.34
Invoice Date	05/31/2017	06/11/2017	06/13/2017	07/01/2017
Invoice Amount	\$4,129.27	\$214.22	\$544.18	\$4,129.27
Discount	\$0.00	\$0.00	\$-24.18	\$-82.58
Adjustment	\$0.00	\$0.00	\$-20.00	\$-330.35
Other Reference Number		56411564		323490
Description		Widget Items		2% Net 10

Level 3 Examples

Level 3 is the STP 820 specification. The examples illustrate how the data would be used within the STP 820. These examples use the same information as the Level 2 examples for comparison. Additional codes and identifiers are added per the specification.

	Example A	Example B	Example C
Total Payment Amount	\$4,129.27	\$714.22	\$3,716.34
RMR01 - Type of Document	IV	IV	IV
RMR02 - Invoice	683528	AB3947	683529
RMR04 - Amount Paid	\$4,129.27	\$214.22	3,716.34
RMR05 - Invoice Amount	\$4,129.27	\$214.22	\$4,129.27
RMR06 - Discount	\$0.00	\$0.00	\$-82.58
DTM02 - Invoice Date	05/31/2017	06/11/2017	07/01/2017
ADX01 - Adjustment Amount	\$0.00	\$0.00	\$-330.35
ADX02 - Adjustment Reason Code		04	CM
REF01 - Reference ID Qualifier		PO	PO
REF02 - Reference Identifier		56411564	323490
REF03 - Description		Widget Items	2% Net 10

Conclusion

This document provides specific guidance for payments industry participants to address the needs of SMBs for remittance data. The BPC work group calls for accounting software and payment service providers to incorporate this guidance into their products, services and business processes. Collaborative industry efforts would extend capabilities on the AP and AR side to enable straight-through-processing of electronic payments for SMBs. SMBs have constraints that should be recognized. The BPC encourages continued industry discussion and will use this foundational work product in ongoing efforts to promote adoption of electronic remittance information.

Work Group Members

The BPC thanks the work group members for their contribution to this initiative.⁴

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⁴ The views expressed in this document are those of the work group and do not necessarily reflect the views of the Federal Reserve Bank of Minneapolis, the Federal Reserve System, or the organizations of the participants.

Appendix – Terminology

Source: [Remittance Glossary](#) (Developed by the BPC in 2013)

X9 TR-43–2013

Technical Report of the Accredited Standards Committee X9

Financial Industry Standards

This Appendix is a subset of terms in the Glossary related to remittance and cash application.

Term	Definition
Adjustment	A change initiated by a buyer to an invoiced amount resulting in a difference in the actual amount paid due to taking a discount, deduction, allowance, or credit.
Allowance (Authorized)	A deduction to the invoiced amount permitted by the seller for various reasons to the buyer for defined events such as advertising, new store opening, or a promotional event.
Automated Cash Application or Auto Cash	A computerized procedure based on a series of algorithms enabling payments to be quickly and automatically applied to a customer's account with the goal of increased accuracy and a high hit rate, which is also used to describe the degree of "Straight Through Processing."
Cash Application	The process of applying customer payments against outstanding accounts receivable. For B2B payments, this is usually accomplished by the open item approach. If a customer has a credit limit, the process frees up the amount of the credit limit for additional purchases.
Customer Account Number or Account Number	The numeric identifier that distinguishes a customer account in a seller's Accounts Receivable system. The customer account is generally tied to a hierarchical structure of accounts including the corporate entity, billing, paying, and shipping account/addresses. Similar terms used are: customer account number, billing account number or payer ID. In this context, it does not refer to a bank "Account Number".
Debit Memo or Debit Memorandum	A document prepared by a customer informing the supplier that the customer is reducing the amount paid on a merchandise invoice due to a return, cancellation or a claimed allowance.
Deduction - Authorized and Unauthorized	A short payment taken by the customer in the payment of a merchandise invoice. Deductions may be authorized and preapproved by the seller or may be unauthorized and unknown by the seller until they are received. Authorized deductions may include reasons such as advertising, allowances for damages/shortages, new store opening discounts, and other promotional events. Unauthorized deductions include reasons such as compliance violations, early/late deliveries and shortages.
Discount	A reduction in price granted by the seller and included in the payment terms for specific events that are usually under the control of the buyer, such as early payment or cash payment.

Term	Definition
EPN - Electronic Payment Network	The private-sector U.S. automated clearing house (ACH), operated by The Clearing House/EPN. FedACH and EPN are "ACH Operators." EPN customers are financial institutions that send and receive files of ACH debits or credits. EPN processes approximately half of the commercial bank ACH transactions in the U.S.
Gross Amount	The total amount before making any deductions or taking any discounts.
Invoice	An itemized bill from a seller (e.g., vendor) indicating the items purchased, price of each item, total value of the purchase, and payment terms.
Net Amount	The full amount the customer is expected to pay. The amount left after necessary deductions have been made from the gross amount. Also referred to as the "payment amount."
Purchase Order	A document (paper or electronic) produced by a buyer or customer to request purchase of goods or services. It will define the quantity and specifications of the goods or services to be purchased as well as the price and terms of the sale, becoming a legally binding agreement upon supplier acceptance.
Reassociation	A term in support of the Accounts Receivable process whereby the payment is matched with the related remittance detail that was sent via another channel from the payment. The goal is to marry the two together and become an automated process. Reassociation can be provided by the seller's financial institution, vendor or by the seller themselves.
Remittance Information or Remittance Advice	Details about a payment, i.e., what the payment is for and variance between the amount billed and amount paid. In business-to-business payments, often a remittance advice is sent by the buyer to the seller to inform them that a payment has been made, the specific items (or invoices) being paid, and the reasons for any discrepancies between the invoiced amount and the paid amount (e.g., discounts, deductions, and adjustments taken in accordance with the terms of the sale). An accounts receivable function then reconciles the payment and remittance detail.
STP - Straight-through Processing	The ability to process a business transaction without human intervention. In the context of payment processing, it refers to a payment that can be posted at its intended destination without rekeying or correction. In an accounts receivable context, an STP rate refers to the percentage in which payment detail is applied correctly without manual intervention.
STP 820	An implementation specification of the X12 820 standard for a payment order/remittance advice that includes minimal remittance information (identifies the 10 most common data elements found in invoices) and used to streamline EDI implementations and processing. The STP 820 is usually sent within an ACH CTX and can be included with a CHIPS or Fedwire payment.
Structured Remittance Information	Remittance information in which the information carried (e.g., invoice number, customer identifier, amount, etc.) is formatted into pre-defined field locations, format, and length as opposed to "free form" remittance. Data that is structured can be automatically processed without manual intervention.