

ISO 20022

Shaping the Future of Payments

JOIN THE TRANSFORMATION JOURNEY IN CROSS-BORDER PAYMENTS.

Latest Developments

- On October 20, 2022, the ECB Governing Council shared their decision to postpone the go-live of the new real-time gross settlement (RTGS) system and its central liquidity management model T2 (T2-T2S Consolidation) by four months, from November 21, 2022 to March 20, 2023.
- Subsequently, on October 27, 2022, SWIFT announced that its ISO 20022 migration will be re-aligned with the new T2 timelines in response to community demand. SWIFT also announced that the ramp-up of the Transaction Manager will begin at the end of May 2023 (initially planned for March 2023) and run through September 2023 (unchanged).
- Following these announcements, Bank of England will conduct a consultation with its community which may result in an ISO 20022 migration delay of a few months for CHAPS. Discussions are also taking place in the US Market. BNY Mellon will update this Factsheet with the latest decisions as soon as these are made available.

Link ECB Announcement: [ECB Announcement](#)

Link SWIFT Announcement: [SWIFT Announcement](#)

New Timelines and Coexistence Challenges

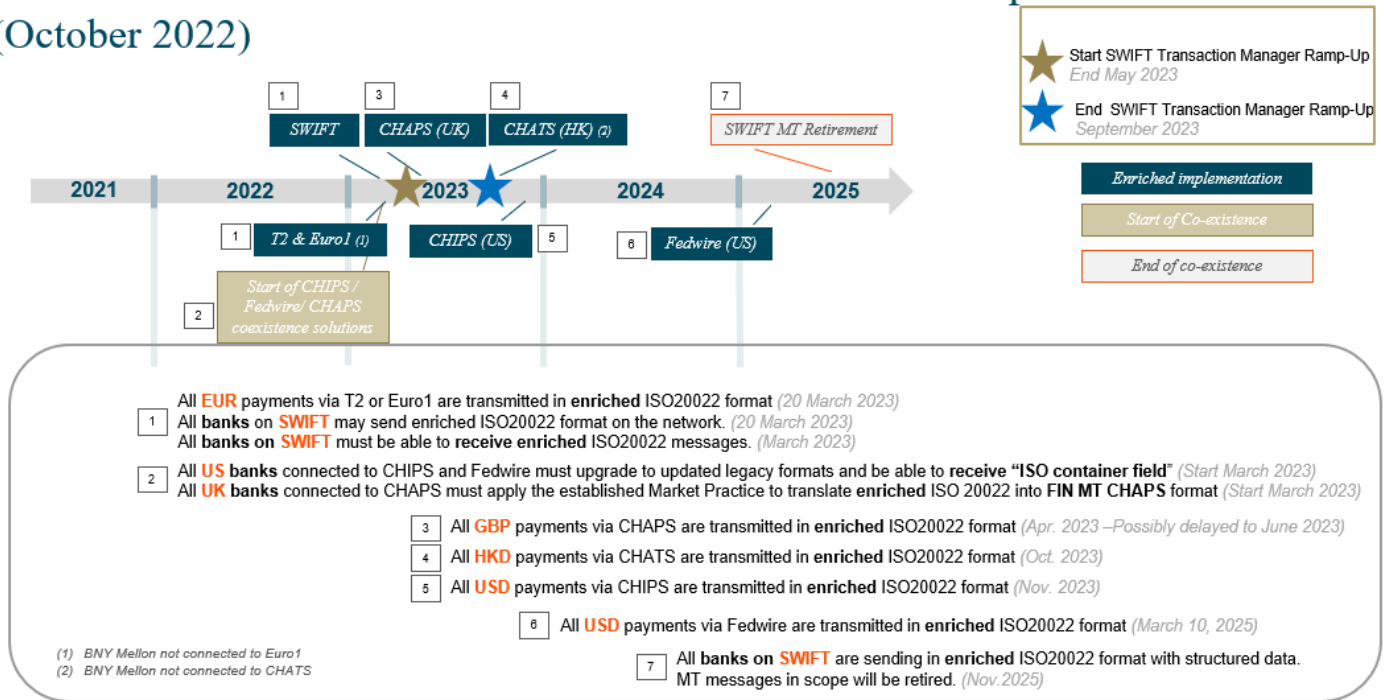
Major market infrastructures such as SWIFT, the Eurosystem, EBA, The Clearing House, the Federal Reserve and the Bank of England have communicated plans to migrate to ISO 20022 between 2023 and 2025.

The overall migration of the industry is now expected to begin with the enhanced ISO 20022 messages on the SWIFT network in March of 2023, together with the migration of the EUR Payment Market Infrastructures T2 and EBA Euro1. The UK CHAPS migration to enhanced ISO 20022 is currently still scheduled for April 2023, while the USD clearing system CHIPS is expected to follow later in the year and the global transition is finally rounded out in March 2025 with the migration of Fedwire. All of these major market infrastructures have adopted a big-bang migration approach.

The resulting staggered migration timelines create a multi-year coexistence phase that extends until 2025, thus challenging interoperability in the global payments networks for several years. Also at risk is therefore the ability for data to travel seamlessly with the payment from the instructing institution up to the beneficiary bank.

Timeline

ISO 20022 Market Infrastructures Initiatives: Latest Developments (October 2022)



Significance of the SWIFT Timeline

The new SWIFT timelines mandates that all banks on the SWIFT network be able to receive and process ISO 20022 based payments (MX messages) starting in March 2023. This marks the beginning of the global co-existence phase, during which banks can use both the MT and MX messages for payments and related cash management messages (i.e. SWIFT FIN Cat. 1, 2 and 9 and ISO 20022 equivalents). SWIFT also communicated in 2021 a new vision for the network’s messaging strategy with the goal to improve transparency and compatibility and more broadly pave the way for faster, more transparent, frictionless cross-border payments. At the core of this strategy is the implementation of a new message orchestration platform, Transaction Manager, which will be deployed concurrently with the start of the co-existence phase in March 2023 and which will gradually ramp up from end of May 2023 till September 2023.

The timeline published by SWIFT still targets a sunset date of November 2025 for the MT messages: Cat. 1, 2 and 9. All member banks must be able to send payments in ISO 20022 by that time.

Adoption of MX messages in the cross-border payments space might be initially driven by a desire of banks in early-adopter markets to achieve technical consistency across all their cross-border payments. The availability of robust translation or co-existence solutions then becomes an essential migration consideration for currencies that have a later migration date, such as USD, due to data mapping difficulties between SWIFT MT and MX messages.

The Challenges of Coexistence

A key benefit of the ISO 20022 standard is the richness of the data supported as well as the high level of granularity and structure of the message elements that are materially superior to what is currently supported in SWIFT MT messages, even in their structured options.

As demonstrated in Figure 1 below, the full information on the originator of a payment as received in a SWIFT MX message cannot be mapped into the corresponding fields of a SWIFT MT message without material loss of data.

ISO 20022 Debtor data element example	Customer data record example	MT – structured option with truncated data *
Name	CHRIS EVANS AND ROBERT R DOWNEY JUNIOR THE SECOND FAMILY OFFICE	:50F: 1/CHRIS EVANS AND ROBERT R DOWNEY + 2/MUDDAFARGANJ-CHITOSI-RAMGANJ ROA+ 3/BD/PASHCHIM KHERIHAR AL, 3622, CHI+ 6/BD/LEIC/549300Y5RWQU43R0QM07
Street Name	MUDDAFARGANJ-CHITOSI-RAMGANJ ROAD	
Building Number	123	
Building Name	ANCHOR TOWER 3	
Floor	25 TH	
Room	5003	
Post Code	3622	
Town Name	PASHCHIM KHERIHAR AL	
Country Sub-Division	CHITTAGONG PROVINCE	
Country	BD	
IBAN	549300Y5RWQU43R0QM07	

(*) the use of the + symbol in the MT format indicates, in line with PMPG guidelines, that information has been truncated

Figure 1: Example of payment originator information in MX and MT messages (source: PMPG/SWIFT)

Similar situations can occur with other fields, for example those carrying information on other parties of a transaction or Structured Remittance Information, thus leading to the potential for substantial loss of information when converting payments between formats.

Additionally, the ISO200022 payment format for customer transfers between banks (pacs.008) provides for parties that do not exist at all in the corresponding SWIFT MT message (MT103): the ultimate debtor and ultimate creditor. These are used to identify actors of the underlying commercial transaction that ultimately owe or are owed the funds settled by the payment – whereas the originator and beneficiary fields of a SWIFT MT103 (Fields 50a and 59a) and their equivalents in the SWIFT MX message (Debtor and Creditor) represent the respective owners of the accounts used for the transfer of funds.

The absence of those ultimate party fields in SWIFT MT103 messages can lead to loss of data that may be important for the receiver of the payment (the creditor/beneficiary) and more critically to the potential truncation of important information for the compliance validations of the financial institutions handling the payment.

While the examples above reference the mapping challenges between ISO 20022 and the legacy SWIFT MT formats, similar challenges may exist when ISO 20022 formatted payments are mapped to clearing systems that use proprietary formats such as CHIPS and Fedwire in the US.

Impacts of Data Truncation Issues for Banks

For Beneficiary Banks:

As noted earlier, all member banks must be ready to receive SWIFT MX payment messages starting in March 2023 and at a minimum, leverage translation solutions available on the SWIFT network. When banks receive instructions for their own clients, they will need to evaluate the impact of potential data truncation scenarios if their systems and product offerings cannot handle the incremental data load and structure of an ISO payment. This needs to take into account the impact on service quality as well as potential compliance and regulatory implications.

For Intermediary Banks (Correspondent Banks):

Banks that routinely act as correspondent banks for other financial institutions must also evaluate their legal and regulatory obligations with respect to passing on full payment details as received to the next bank in the payment chain. This is particularly challenging when the local payment market infrastructure format does not permit easy mapping of rich structured data. Early engagement of the local community is highly recommended to evaluate impacts and develop best practices for the local market.

Current Planning for the Co-Existence Phase in the U.S.

The impact of data truncation issues also applies to banks operating in the US where the CHIPS migration to ISO 20022 is scheduled for late 2023 and Fedwire will switch in spring 2025.

The US banking industry anticipates receiving ISO 20022 payment messages with rich and structured data starting in March 2023 and has therefore developed a co-existence strategy for both CHIPS and Fedwire as well as corresponding market practice related to the handling of potential data truncation challenges. These efforts are motivated by the effort of the community to remain in compliance with FATF guidelines and US regulations requiring transmission of full details of the originator and of a payment.

While these efforts have been targeted at creating as seamless transition experience for the correspondent banking industry, banks around the globe should engage in active dialogue with their USD Clearing providers to understand their plans related to sending payments in MT or MX format.

SWIFT Solutions for Coexistence

SWIFT recognizes the challenges of the ISO 20022 transition for the entire community and has developed a range of MX<>MT translation solutions to align to a variety of migration strategies ranging from central services hosted by SWIFT to on-site solutions.

While those solutions may ease the complexity of the migration effort for certain institutions or enable them to focus on other development areas first, it is important to note that the issues related to data truncation remain. SWIFT's solutions will highlight situations where truncations occur and banks receiving such messages must develop an approach to deal with the scenarios that they might encounter.

CBPR+ and PMPG Market Practice Guideline on Structured Customer Data

Banks should also be aware of the Cross-Border Payments and Reporting Plus (CBPR+) market practice recommendations published by the Payments Market Practice Group (PMPG). The PMPG is an independent advisory group to SWIFT that brings together payment subject matter experts from banks in Asia-Pacific, EMEA and North America, and acts as a forum to drive better market practices that, together with correct use of standards, will help to achieve full straight-through-processing (STP) and improve customer service¹. In the context of the industry's migration to ISO 2022, the CBPR+ was created in support of the PMPG as a working group to develop global usage guidelines for the standard for the SWIFT community.

The CBPR+ guidelines stipulate that if a payment is initiated ISO 2022, effective with the start of the co-existence phase in March 2023, it is highly recommended to use a structured address for the Debtor and Creditor. Structured address for both Debtor and Creditor will subsequently become mandatory from November 2025.

Additionally, the first guideline noted in the PMPG's market practice guidelines on Structured Ordering and Beneficiary Customer Data in Payments² focuses on the structured customer data in payments benefits, setting the goal for the banking community to sunset the unstructured data fields for originator and beneficiary information in November of 2025.

Banks should be mindful of these market practice recommendations when developing their migration strategies even though they are not presently firm and mandatory requirements. We anticipate a significant amount of attention from the banking community, clients and supervisory bodies to developments in this particular area.

High Value Payments Plus (HVPS+) Guidelines for Market Infrastructures

While one key benefit of ISO 2022 is the data richness and flexibility of the format, the industry also realized that these harbor the potential risk for gradual divergence of the ISO variants and versions used by various market infrastructures around the world. In a globally interconnected payment ecosystem, long-term, sustainable alignment and interoperability are essential to realize the anticipated benefits of the ISO 2022 implementation.

SWIFT, key Payment Market Infrastructures and a number of large banks have been cooperating since 2016 to develop market practice recommendations for the implementation of ISO 2022 by clearing systems around the world known as HVPS+ guidelines. Similar to CBPR+, the HVPS+ initiative is sponsored by the Payments Market Practice Group.

Despite the efforts around alignment however, banks that are direct members of the market infrastructures moving to ISO 2022 over the next few years will have to consider the HVPS+ guidelines for their direct clearing activity in addition to the CBPR+ guidelines for SWIFT messaging in the correspondent banking domain, adding to the overall complexity of their migration programs.

ABOUT BNY MELLON

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment and wealth management and investment services in 35 countries. As of September 30, 2022, BNY Mellon had \$42.2 trillion in assets under custody and/or administration, and \$1.8 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK). Additional information is available on www.bnymellon.com. Follow us on Twitter @BNYMellon or visit our newsroom at www.bnymellon.com/newsroom for the latest company news.

¹ <https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/mission-and-scope?tl=en#topic-tabs-menu>

² <https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre>