

May 19, 2023

Submission to the Committee on
Payments and Market
Infrastructures – *“ISO 20022
Harmonisation Requirements for
Enhancing Cross-border Payments”*

Overall Comments

Payments Canada welcomes the opportunity to provide its feedback on the Committee on Payments and Market Infrastructures (CPMI) Consultative Report, *"ISO 20022 Harmonisation Requirements for Enhancing Cross-border Payments"*.

As a public purpose organization that owns and operates Canada's payment clearing and settlement infrastructure, including associated systems, by-laws, rules, and standards, Payments Canada is keenly interested in the standards work and in understanding what the implications are for Canada, our financial institution membership and our end-user stakeholders. Payments Canada appreciates the consultative approach that the CPMI has taken in engaging with stakeholders to gather feedback on the proposed harmonisation requirements. It's Payments Canada's belief that this approach will allow for a comprehensive understanding of the opportunities and challenges faced by the ecosystem in moving towards greater harmonisation at the global level.

Payments Canada continues its support of the ambitious work that has taken place over the last few years on the G20 Roadmap for Enhancing Cross-border Payments, particularly with regards to messaging standards. As previously shared, the move to the ISO 20022 standard not only aligns with Payments Canada's modernization of domestic payment systems and addresses the needs of Canadian financial institutions and businesses, it also broadens interoperability of the Canadian payments marketplace with the rest of the world.

Payments Canada is leading efforts to leverage ISO 20022 for payments within Canada. In March of this year, Payments Canada launched the second release of Lynx, which introduced ISO 20022 into the Canadian high-value payment space. Payments Canada is recognized as a leader in the Canadian market infrastructure space for ISO 20022, with an emphasis on assisting our members in their ISO use through our systems. Lastly, Payments Canada is responsible for managing ISO 20022 usage guidelines and message specifications for our core market infrastructure systems while ensuring the needs of our members and their customers are taken into account.

Consultative Response Specific Considerations

Alignment of Market Practices

- Payments Canada supports an approach that would see the harmonisation requirements coming into force after the Swift MT/ISO 20022 co-existence period ends in 2025. The global community is expected to have substantially progressed its planned adoption efforts and the suggested timing is a natural fit. It is important to note that 2025 marks the end of MT message co-existence with MX/ISO 20022 on the SWIFT network. More specifically, it does not mark the conversion to full ISO 20022 across the globe. While we all anticipate comprehensive adoption, it is necessary to discuss how the approach would change if there were to be a delay in the ending of the co-existence period.
- We agree that the alignment of various market practices is a practical and beneficial step forward. However, the approach for aligning guidance (e.g., CBPR+, HVPS+, etc.) with the CPMI's harmonisation requirements is, at this time, unclear. As presented, the suggested timeline is quite ambitious and additional analysis would be required once updated guidelines have been published to confirm what would be achievable.

Maintenance and Enforcement

- A well-defined maintenance process for the harmonisation requirements will be a critical component of this work. We strongly encourage the issuance of clear guidance on a proposed approach for maintenance, which will provide predictability, consistency and transparency, enabling stakeholders to plan effectively and minimize risks.
- While the requirements could offer significant potential benefits, their success is not guaranteed in the absence of enforceability. At this time, it is unclear on what basis, by what entity, and with what measures the requirements would be enforced (including compliance).

End-to-End Payment Harmonisation

- Payments Canada is supportive of efforts that help to achieve greater harmonisation along the payment chain. As the Canadian system operator, Payments Canada is invested in promoting interoperability, but notes an authority to enforce messaging standards beyond our membership does not exist. Payments Canada can encourage and educate on the advantages of using these standards, however, their usage can not be mandated in domestic end-to-end processing.

Nonetheless, Payments Canada supports the creation of messaging specifications that non-bank end-customers can use as appropriate on a bilateral basis.

- Payments Canada also acknowledges that the implementation of harmonised, end-to-end ISO 20022 standards for cross-border payments would require significant investment of time and resources from the ecosystem. The timing for introduction of any new requirements should be carefully managed to allow implicated entities the ability to adequately plan for and execute these changes. We would suggest a minimum of 24 months from the final requirements being published and at the option of the users, recognizing the varying needs of the individual entities within the payments chain and overall practicability given timing and scope.

Consultation Questions

Question 1. Do you agree with the guiding principles followed for setting the requirements, including the platform or network agnostic approach, the level of ambition and the future state orientation?

The guiding principles followed for setting the requirements seem reasonable. While a platform or network agnostic approach allows for greater flexibility and compatibility between different systems, the requirements do seem to veer towards a CBPR+ Swift bias. The level of ambition, when accounting for the degree of effort required to get to full adoption, will likely be quite difficult to achieve in the timeline suggested.

Requirement #1 - To use the appropriate message for a particular business function (Section 2.5.1)

Question 2. Do you agree that the inconsistent use of messages can be adequately addressed through this requirement?

Generally, yes, the inconsistent use of messages could be addressed through the ISO 20022 harmonisation requirements assuming that users have the necessary training and education on proper usage. ISO 20022 is a message standard that will likely undergo changes and developments over time, and while it is beneficial to establish a starting point, it's possible that its implementation in the marketplace may differ from what is being prescribed in the requirements. Implementation of maintenance and enforcement measures can likely mitigate usage drift over time. However, it's still challenging to predict the effectiveness of the ISO 20022 harmonisation requirements in the absence of such measures. There is also an embedded assumption that the use of ISO 20022 is required, when that may not always be the case - resultantly, flexibility should be afforded to users.

Question 3. How could the risk of inconsistent use of messages or deviation from the business functions defined by ISO 20022 be mitigated? Would the proposed solution contribute to mitigating such risks and lead to improved efficiency of cross-border payments processing? Please explain.

The risk of inconsistent use of messages defined by ISO 20022 can be partially mitigated through standardisation, education, maintenance and compliance monitoring.

Unfortunately, without enforcement mechanisms, the risks can only ever be partially mitigated and the efficiency gains of cross-border payment processing are only enhanced in so much as the risk mitigations have been successful.

Question 4. How do you assess the level of effort that will be required to adopt the appropriate message as defined by the ISO 20022 standard?

The level of effort required to adopt the appropriate message as defined by the ISO 20022 standard will depend on a variety of factors, including the time allotted for adoption, size and complexity of the ISO message. Varying payment technologies in the ecosystem, the level of interoperability with other systems, the degree of customization required, impact on existing operational processes, message specification testing and the overall enforceability will also materially impact effort.

Question 5. Would requiring the use of ISO 20022 externalised codes facilitate faster, cheaper and more transparent cross-border payments? How do you assess the implementation effort?

Requiring the use of ISO 20022 externalized codes can facilitate faster, cheaper, and more transparent cross-border payments. While the principle at the heart of this requirement is a good one, it does raise questions around code list maintenance and the growth of the code list over time. The implementation effort likely varies depending on the specific requirements of each entity.

Question 6. Are there any limitations/challenges resulting from increased reliance on ISO 20022 codes? How difficult would it be to overcome these limitations/challenges?

At this point in time, it's difficult to say with certainty what the limitations or challenges may be, as there needs to be a significant increase in usage to see how this will evolve. Given the sometimes hyper-local nature of codes, a preferred approach would advocate for reliance on codes as applicable, recognizing that in certain instances local codes will be required. This would provide an appropriate amount of flexibility for jurisdictions to adopt the requirement without causing significant issues for domestic systems and code lists. Education will be key to long-term success and viability of codes and associated code lists.

Question 7. Do you agree that identifying a payment as a cross-border payment should be required to enhance the processing efficiency of cross-border payments? Would such a flag facilitate compliance procedures including financial crime screening? Please explain.

In theory, identifying a payment as cross-border should enhance the processing efficiency of cross-border payments. However, in practice, it is likely not the case given the regulatory requirements (e.g., screening) of entities receiving these payments. It is also important to note that there are clarification challenges that

would need to be addressed before a requirement of this nature this could be implemented (i.e., what qualifies as a cross-border payment).

While likely beneficial to have this type of flag, particularly given that currently there is no other single element that identifies a payment as cross-border, until the term cross-border has precision in definition, and that definition is common across all jurisdictions, this is not a requirement that should move forward.

Question 8. Do you agree that the use of an ISO 20022 external code (eg. a Category Purpose) would be the most effective way to flag a payment as cross-border? Are there alternative approaches you would suggest?

The use of an ISO 20022 external code would be an effective way to flag a payment as cross-border. Payments Canada notes that category purpose is already defined in the ISO 20022 community as a code to indicate processing on a receiving side. Further, as the consultation notes, ISO 20022 also only allows for one repetition of category purpose. Without changes to ISO 20022 it is likely not well suited for this purpose and alternative approaches (e.g., service level) are likely more appropriate.

Question 9. How do you assess the level of cost and effort required for the implementation effort?

The level of cost and effort required for the implementation effort is highly dependent on which entity within the ecosystem is impacted. Further considerations could include the work required to define clear requirements, the time allotted for adoption, payment technology in the ecosystem, the level of interoperability with other systems, the degree of customization required, impact on existing operational processes and technology solutions, and the definition and execution of a testing plan.

Question 10. Do you agree with the restricted character set for cross-border payments as described above? If not, which alternative character sets or additional characters should be included?

While Payments Canada understands the restricted character set is intended to avoid issues with incompatible character sets between systems, it does not agree with the proposed approach. We find it at odds with the fundamental principle of openness and flexibility meant to be afforded with the ISO 20022 standard. Similar to suggested changes to the postal address requirement, this approach does not recognize the global nature of payments. A suggested minimum of the Latin character set being supported would be a more appropriate recommendation.

Question 11. Do you agree that requiring times in ISO 20022 messages to be stated either in UTC or in local time with UTC offset will enhance the transparency and efficiency of cross-border payments? If not, please explain

Requiring a common time convention would help to ensure consistency and accuracy in cross-border payments. Using UTC or local time with UTC offset would help to eliminate confusion and potential errors that could arise from different time zones or daylight saving time adjustments. Overall, it seems that this could have a positive impact on the transparency and efficiency of cross-border payments but Payments

Canada would suggest that it be left as a recommended element, to allow for jurisdiction and payment system-specific flexibility.

Question 12. Do you agree that requiring the use of UETR for all cross-border payments will have a positive impact on the transparency, speed and cost of cross-border payments? If not, please explain.

Payments Canada agrees that requiring the use of UETR for all cross-border payments could have a positive impact on the speed and cost of cross-border payments. As the consultation notes, this change could entail cost and effort as many communities do not currently require it domestically. Furthermore, it is likely not a network agnostic approach.

Question 13. How do you assess the effort required to implement this requirement?

As noted above, this change would likely entail cost and effort for domestic systems, particularly for legacy systems. Further considerations could include the work required to define clear requirements, the time allotted for adoption, payment technology in the ecosystem, the level of interoperability with other systems, the degree of customization required, impact on existing operational processes and technology solutions and the definition and execution of a testing plan.

Question 14. Do you believe that the requirement for inclusion of the time of debit of the debtor will increase transparency on the time it takes to complete the processing of cross-border payments? What improvements would the requirement bring to the end user experience?

While generally including the time of debit of the debtor would help to provide more accurate and transparent information on the processing times of cross-border payments, it is likely that further definition is required to make a meaningful difference, further supported by additional transparency in the intervening steps. If properly defined, this information could help to identify any delays or issues in the payment process and improve the end user experience by providing greater traceability and improved decision making (i.e., using one payment service provider over another given delays etc.). We note that the improvements this requirement might bring assumes account processing which may not be the reality across all of the ecosystem.

Question 15. How do you assess the difficulty of adopting usage of the Acceptance Date Time data element as a requirement for cross-border payments? Would the implementation effort and impact on the transparency needs of end users differ by message type?

Payments Canada does not agree with the approach in general. This element already has a purpose that is not defined as the time of debit. If this information was required, Payments Canada would instead advocate that a new element be created and precisely defined in order to add this data to the message.

The implementation effort and impact on transparency needs of end users would not differ by message type since the same potential new element would likely be added to all existing payment types (pacs.008, pacs.009 and pacs.004).

Question 16. What are the implications of requiring all those involved in cross-border payments to provide complete information on amount, conversions and charges?

In principle, requiring full transparency on amounts, currency conversions, and charges would help to improve trust and reduce the risk of errors. It could also help to improve the end user experience by providing more accurate and complete information on the costs associated with cross-border payments, particularly for corporates. However, in practice this becomes extremely complex from an implementation perspective, particularly as different kinds of payments (e.g., returns, rejects etc) are implicated by the requirement.

This also touches on competition law in individual jurisdictions, and may require a certain level set or universal equating that is difficult to foresee occurring. As with a number of the suggested requirements, the inclusion of this information from end-to-end would constitute a significant effort across the payments ecosystem for sending, intermediary and receiving agents, while providing potentially marginal value to end-users. Lastly, there is also a specificity concern that needs to be addressed around the use of the word “complete”. Complete from whose viewpoint and for what purpose?

Question 17. Are there any technical, legal or other hurdles that could impede the inclusion of complete information on amount, conversions and charges in cross-border payments that they process?

See above response.

Question 18. Would the introduction of a CPMI service level code in ISO 20022 to track adherence to the CPMI guidance and harmonisation requirements facilitate improvements to cross-border payments processing?

In theory, the introduction of a CPMI service level code in ISO 20022 could be useful in tracking adherence to the CPMI guidance and harmonisation requirements for cross-border payments processing. In practice, however, it is too early in the adoption of ISO 20022 to determine if this would be an effective undertaking. Further, the approach to agreeing to a service level code, enforcement and compliance would all need to be addressed as part of this work.

Payments Canada does not agree with the statement that a service level code would support automated validation during processing of cross-border payments therefore improving straight through processing. It may provide potential direction on how a payment could be processed, but that is outside of validation and tangential to straight through processing. At a future point, there is the potential that automated validation could be built in, but as proposed, this is not the case.

Question 19. How would the availability of a CPMI service level code in ISO 20022 messages impact the business models/strategies of financial institutions providing cross-border payment services?

It is difficult to assess what the impacts may be without understanding the totality of what is captured within the code. As a financial market infrastructure, Payments Canada can only broadly approximate,

based on what is contemplated throughout the consultation, that there are considerable implications which likely rest outside of the scope of what this work is aiming to achieve.

Question 20. How do you assess the difficulty of adopting a CPMI service level code?

The difficulty of adopting a CPMI service level code will depend on the scope (greater complexity as scope increases, which in turn requires more effort) existing technology and processes. This would likely be a significant undertaking for the global payments ecosystem.

Question 21. Do you agree that the use of account identifiers (or account proxies), to the extent possible, would have a positive impact on the speed and cost of cross-border payments? Please explain

As with all things ISO 20022, additional precision in a message is net positive. We note however there is potential for redundancy given the possible use of other elements explored in this consultation (e.g., LEI, BIC, etc.) and that further work would be required to understand how this requirement would translate to related messages (e.g., FX, Trade Finance) and in instances where an account or proxy was not available (e.g., pay upon presentment). The use of account identifiers or proxies may have substantial cost and effort implications across jurisdictions, so careful consideration in its application is highly advisable.

Question 22. Do you agree that uniquely identifying all financial institutions involved in cross-border payments in an internationally recognised and standardised way would enhance cross-border payments? Please explain.

Additional precision is required in defining the term “financial institution”. While the principle underlying the statement holds, the introduction of something like this generally tends to bring with it a systems design element that should be left at the discretion of individual jurisdictions.

Question 23. Do you agree with the proposed solution of requiring the use of the BIC to identify all financial institutions? Why or why not?

The use of BICs to identify all financial institutions could potentially be explored for this purpose, given BICs are already widely used in the financial industry. However, it may not be an all-encompassing solution as not all financial institutions have a BIC (for example, domestic financial institutions that have no need for a BIC or are not on the Swift network) and there may be some concerns about the accuracy and reliability of BIC data.

Question 24. What would you assess to be the level of effort required by your jurisdiction: (a) to only use the BIC to identify financial institutions in ISO 20022 messages; and (b) for all financial institutions that currently do not have a BIC to register for one?

Definitional challenges aside, this would be a laborious undertaking both in Canada and around the world and may not be practical given the realities of domestic market structures. In order to better gauge the potential impact, it would likely be a prudent exercise to first quantify the size of the market without BICs, then engage in targeted discussions to better understand the reality of what would be required.

Question 25. Do you agree that requiring participants to identify all entities involved in a cross-border payment in a standardized and structured way would enhance the processing efficiency of cross-border payments? Please explain.

It's likely that this section could benefit from further definition of the term, "participants". Requiring payment messages, as the consultation states, to identify all entities involved in a cross-border payment in a standardized and structured way could likely enhance the processing efficiency of cross-border payments. The proposed requirement, if appropriately defined, provides additional precision which we see as a benefit overall.

Question 26. Do you agree with the proposed use of structured identifiers such as the LEI, if they exist, to complement the recommended minimum data requirements to identify the legal entities involved in cross-border payments? Should they be required instead?

If minimum data requirements are appropriately adhered to and defined, it's not clear they would need to be complimented by the inclusion of an LEI. With that said, the inclusion of an LEI can be useful for standalone reasons, such as compliance purposes and increasing transparency.

Question 27. Do you agree that requiring participants to identify all persons involved in a cross-border payment in a standardised and structured way would enhance the processing efficiency of cross-border payments? Please explain.

Although we agree, common standardization and appropriate structuring globally may be challenging to achieve in the short term.

Question 28. Do you agree that a requirement not to use unstructured postal address information and to use only structured postal address information can help enhance the processing efficiency of cross-border payments? Please explain.

A requirement not to use unstructured postal address information and to use only structured postal address information does not reflect the global nature of payments. While certain structural provisions are well suited to western developed countries, many jurisdictions would have a difficult time reconciling the structural elements with their domestic address formats. A more appropriate requirement would be to emphasize the prioritization of structured address components over unstructured when the formats are compatible, with unstructured remaining for use in instances where domestic formats were incompatible with the structural provisions.

Question 29. Do you agree with the minimum required postal address information consisting of the Country and Town Name fields? Should any additional fields be required?

The minimum required postal address information consisting of the Country and Town Name fields is a good starting point and a true minimum. To provide comment on what additional requirements could be considered it would be prudent to first understand what the natural progression of the minimum is, which of course will take time.

Question 30. Do you believe that setting minimum end-to-end expectations with respect to the carrying of remittance information can improve the processing efficiency of cross-border payments?

This presumes all data is contained within a payment message which is not always the case (e.g. billing and invoicing systems) and setting limits seems at odds with the overall intent of the ISO 20022 standard. While generally clear and standardized remittance information helps ensure that payments are processed accurately and quickly, it's Payments Canada's belief that greater experience and maturity in the usage of the ISO 20022 standard is required before an informed response can be provided.

Question 31. To what extent would the ability to include references to separately sent remittance related information (e.g. through inclusion of hyperlinks or other references) be helpful to process a cross-border payment? Are there obstacles (e.g. legal, regulatory, supervisory limits) to including reference to separately sent remittance information in your jurisdiction/community?

The ability to include references to separately sent remittance-related information could be helpful for both cross-border and domestic payments, noting that there are a number of ways to do this (e.g., hyperlink etc). Ideally, and where appropriate for the business purpose, all data and the payment message would be sent together. In terms of obstacles, the need for a standardized method of referencing remittance information stands out. Without a common approach, different systems may not be able to interpret or process the information accurately. Additionally, some payment systems may not have the capacity to process hyperlinks or other types of references.

Question 32. Is the timing envisaged for the requirements in section 2.5 to take effect in line with industry expectations? What would be the challenges in meeting the envisaged timeframe?

The timing envisaged for the requirements in section 2.5 to take effect would be challenging for the ecosystem, but Payments Canada believes setting the broad parameters for a future orientation that the ecosystem can work towards can prove beneficial to the cross-border community. It would be helpful to understand what the CPMI is considering for measurement of achievement, to what depth and over what timeframe? Global and ubiquitous adoption of ISO 20022 is a long-term initiative that involves not only the harmonisation of messaging formats but also the rethinking of underlying business models and processes. As a result, much more time is likely required for the full adoption of ISO 20022, the harmonisation of ISO 20022 cross-border requirements, and the potential benefit realization from all of the efforts in this space.

Question 33. Do the requirements in section 2.5 provide clarity on how harmonised implementation of ISO 20022 can contribute to achieving the G20 targets?

Generally the requirements in Section 2.5 provide clarity on how the harmonised implementation of ISO 20022 can contribute to achieving the G20 targets. Payments Canada supports efforts that move the ecosystem along the ISO 20022 journey. The organization notes the requirements alone will not solve for the targets and the practical implementation of the level of change is likely much further away from than the 2027 deadline set out in the G20 Roadmap. While the requirements are in principle well aligned with the G20 targets, the connection between some requirements and the targets is at points tangential, and it is

unclear if the cost and effort of implementation of certain requirements would be worth the perceived benefit in a reasonable timeframe.

Conclusion

In closing, Payments Canada is appreciative to the CPMI for the opportunity to provide input into this important work. It's understood that further discussion and collaboration is needed to secure a more interoperable future and hope that these comments will be taken into consideration as the work progresses. Payments Canada remains ready to assist the CPMI however it may be helpful.

Sincerely,



Shawn Van Raay
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