Australian Payments Plus (AP+) – New Payments Platform (NPP) response to the CPMI ISO20022 harmonisation consultation questions

Consultation questions

The CPMI invites the public to send their comments on these consultation questions to the CPMI secretariat (cpmi@bis.org) with "ISO 20022 harmonisation" in the subject line by 10 May 2023. All responses will be shared with the JTF and will inform the publication of the finalised harmonisation requirements by the CPMI. Responses will also be published on the website of the CPMI. Commercial or other sensitive information should not be included in the submissions, or may be included, with redactions for publication clearly noted.

Guiding principles (Section 2.2)

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?

AP+ agrees with the guiding principles but notes that specific market infrastructure implementations may require some specific design or market requirements to be retained due to the size, costs and impact of the change that may be required to achieve full harmonisation. For Australia's New Payments Platform (NPP) many of these specific requirements are a result of the timing of NPP's design back in 2014 and the available ISO20022 messages/usage at the time. One example of this is the use of pacs.009 as the real time, line by line settlement request message whilst another example are the exceptions and investigations messages and underlying business processes to manage investigations, claims and returns which were developed before more recent ISO20022 developments in this area.

The impact of these specific market requirements on achieving cross-border harmonisation will vary, with some current market practices having a more material impact on the CPMI objectives compared to others. It should also be noted that at least for the NPP, and possibly other RTP platforms, the design caters for both domestic and cross border payments. Any changes required specifically for cross border payments would need to be assessed against any resulting impact to the domestic payments functionality. This includes capability which is already live in market and specific to domestic payment functionality.

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?

Conceptually yes but noting that the degree of success may vary if the cost and impact of the resulting change is too large to be agreed by the relevant Market Infrastructure and its participants.
Message translation and other tactical solutions may be necessary to meet the CPMI

objectives in certain situations, resulting in some residual inconsistent use of messages whilst still achieving most if not all of the CPMI objectives.

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.

Some of the issues with inconsistent message usage and meeting the other CPMI objectives could potentially be solved through the current initiatives for cross border inter-linking of Real-Time Systems. Either multi-lateral hubs or bi-lateral interlinking solutions could address any material inconsistencies within their design. The interlinking solutions may offer the potential for improved speed and reduced costs as well. For example, a hub/multilateral design could include mapping/conversion within the hub to help address inconsistencies between the linked domestic payment infrastructures. This interlinking design could be a short-term solution while any inconsistencies are addressed over a longer timeframe.

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?

As noted in Q1 and Q2 the level of effort to adopt the appropriate messages in full may be material due to a market's inherent design requirements and decisions that were necessary at the time of the platform's inception and if the platform caters for both domestic and international payments.

Requirement #2 – To use ISO 20022 externalised codes for payments and payment-related processes (Section 2.5.2)

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?

AP+ agrees that the use of the ISO20022 externalised codes would assist the objectives of improving cross-border payments. External codes have been utilised in the NPP to achieve similar domestic objectives and the implementation effort to incorporate these codes in cross-border payments should not be considered a significant barrier. Noting that the application of codes may have different and specific meanings in particular markets.

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?

Refer to response to Q5 above. In addition, it should be noted that processing rules within a Market Infrastructure such as the NPP may invoke further conditions/rules and meaning on when particular codes are used.

<u>Requirement #3 – To indicate that a payment is a cross-border payment (Section 2.5.3)</u>

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.

AP+ agrees that it is important to identify a payment as a cross-border payment in order to ensure that all regulatory/compliance screening and reporting purposes are able to be undertaken. The NPP will implement its International Payments Business Service for the domestic leg of a cross-border payment at the end of 2023. One of the requirements of this service is that all payments using this service be identified as originating cross-border for domestic regulatory compliance purposes. This is seen as one of the key benefits of the service with beneficiary payee banks having visibility to these payments as cross-border payments, compared to alternative payment rails where this level of visibility is not possible.

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 a category purpose code to identify cross-border payments may conflict with the objective to use external codesas noted in Q4. If the "PENS" code is used to identify the purpose of the payment it would conflict with the use of the code to signify a cross-border payment. AP+ suggests using a field in the header message if it accompanies the payment message such as *Business Service: Specifies the business service agreed between the two MessagingEndpoints under which rules this Business Message is exchanged* (*<AppHdr><BizMsgIdr>*<BizSvc>) or an alternative propriety code that does not conflict with common usage of fields such as Category Purpose would be preferred.

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

Any alternatives would need to be assessed on a case by case basis. If the proposed changes impact on fields or data already in use, this will have a larger impact in terms of implementation effort and cost. Changes to data already in usage is likely to incur significant cost and would require an industry coordinated change and is unlikely to be supported without satisfactory supporting rationale and justification for the change.

<u>Requirement #4 – To support/restrict the character set used for ISO 20022 payment messages to current market practice (Section 2.5.4)</u>

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?

For some Market Infrastructure's such as the NPP an already expanded character set is in market and operating today, for example incorporating UTF 8 encoded characters and a broader range of ASCII characters.

The proposed restriction as noted above would have a broader impact as a result.

One suggestion to minimise impact, if a restricted character set is necessary, is to potentially limit the requirement to cross-border data elements that are mandatory only, allowing a broader character set to be utilised in optional fields, such as remittance data.

Requirement #5 – To use a common time convention across all ISO 20022 messages associated with cross-border payments (Section 2.5.5)

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.

UTC without offset would be the preferred approach. A change to require an offset would be material noting the NPP supports both domestic and cross border payments. This includes where the implementation of the change would need application across all current users and financial institutions connected to the platform.

Requirement #6 – To include a unique end-to-end reference for all cross-border payments (Section 2.5.6)

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.

The NPP allows payments that may originate from ISO20022 cross border SWIFT payments as well as other cross-border payment rails. Our understanding is that UETR is a specific identifier for usage in SWIFT cross-border payments. The NPP International Payments business service has been designed to be scheme agnostic and able to process cross-border payments from a variety of international payment processing platforms/networks other than SWIFT. UETR is not an ISO defined code and it may be better to consider a more generic ISO standard code or an array of qualifying codes (which could include UETR as well as other identifiers for other networks).

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

Refer to response to Q12 above. An impact assessment would need to be undertaken across all stakeholders subject to which code is used.

Requirement #7 – To ensure full transparency on processing times for cross-border payments (Section 2.5.7)

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?

Although the objective may assist in providing clarity of when a cross border payment completes,

the ability to accurately confirm the time of debit is very difficult to achieve without introducing extra message flows or APIs. In a real-time payments system these extra flows would be necessary to enable a beneficiary payee bank to confirm the debit time as it can occur after completing any regulatory screening/checks and final account posting. These processes could occur after clearing (and possibly settlement) being completed so they would need to be additional to normal payments processing.

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?

As noted in Q14 above AP+ believes that determining the actual debit time of the debtor would require extra message/API flows to be developed outside of the standard clearing flow for an existing real-time payments system. As a result the implementation effort is likely to be significant and incur considerable cost.

<u>Requirement #8 – To ensure full transparency on amounts, currency conversions and charges of cross-border payments (Section 2.5.8)</u>

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

The NPP already provides mapping guidance for the inclusion of this data if provided in the cross-border leg of a payment.

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?

To date, the NPP has considered inbound cross border payments with the mapping guidance already included to populate this information in the domestic leg. This would need to be further considered if outbound payments originated from the platform.

<u>Requirement #9 – To indicate that a cross-border payment is consistent with the CPMI service level agreement guidance (building block 3) (Section 2.5.9)</u>

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?

Whilst the NPP can preserve the information associated with the cross border payment (including the service level) this does not automatically infer that the domestic payment, as the final leg of the payment, will preserve the same service level. For example all NPP payments are real-time payments utilising one of the NPP services which invokes its own set of rules. The cross border service only covers the aspects of the cross border leg. ISO20022 usage must consider where there are two interlinked payments that bridge two

separate platforms/payment schemes, including where processing rules differ between the two platforms.

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?

Yes, whilst the data could be preserved it would not automatically be included in the NPP service level which applies to the NPP payment that was instructed from the cross border payment.

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

Any changes to data already in use would incur significant cost and require an industry coordinated change across all institutions. This change would unlikely be supported without supporting rationale and justification.

Requirement #10 – To recommend the use of unique account numbers (or proxies) to the extent possible (Section 2.5.10)

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.

AP+ supports this requirement. Where a cross border payment is received without these identifiers the intermediary must repair the transaction with the missing data before it can be processed as an NPP payment for the final domestic leg. Providing account identifiers will help issues with misdirection etc which is an existing issue for Australian BSB-account numbers.

Requirement #11 – To uniquely identify all financial institutions (FIs) involved in cross-border payments in an internationally recognised and standardised way (Section 2.5.11)

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.

Standardisation of identifiers can assist efficiency, noting that the BIC is already in use across the NPP platform. Given the NPP also may take instruction from non SWIFT entities, any proposed solution should allow for other standard identifiers.

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?
Refer to response to Q22 above.

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?

Refer to response to Q22 above.

Requirement #12 – To identify all entities involved in a cross-border payment in a standardised and structured way (Section 2.5.12)

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

AP+ agrees with the objective of identifying all entities in a standardised and structured way. Achieving this however may have significant implications where older versions of messages are in place that do not contain elements such as LEI or where LEI is not currently an identifier used in payment processing. The introduction and ongoing maintenance of any such identifier would be a new capability requiring industry wide development.

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?

Either BIC or LEI could be appropriate but would need to be subject to a more detailed impact assessment with the industry, noting the issues with LEI noted in the response to Q25 above.

Requirement #13 – To identify all persons involved in a cross-border payment in a standardised and structured way (Section 2.5.13)

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.

AP+ agrees with the objective of identifying all persons in a standardised and structured way. Noting that there would be a significant impact on initiating entities and their systems that would need to be updated in order to provide accurate and structured information.
The ability of Market Infrastructure's to enforce change to these entities may be difficult and will take time to achieve.

Requirement #14 – To provide a common minimum level of postal address information structured to the extent possible (Section 2.5.14)

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.

AP+ agrees with the objective of achieving structured postal address information.
Noting that there would be a significant impact on initiating entities and their systems that would need to be updated in order to provide accurate and structured information. The ability of Market Infrastructure's to enforce change to these entities may be difficult and will take time to achieve.

To support acceptance there could be minimum standards of identification if unstructured address is included, such as at least

- **Date of birth/date of incorporation**
- **Place of birth/place of incorporation**
- **LEI / or other corporate identifier**
- **Town and Country**

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?

AP+ agrees, noting that there may be some exception cases and consideration could be given to how compliance is achieved eg % of payments.

<u>Requirement #15 – To cater for the transport of customer remittance information across the end-to- end cross-border payment chain by enabling the inclusion of a minimum size of structured or unstructured remittance information with the payment, or to reference such information when sent separately (Section 2.5.15)</u>

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?

AP+ agrees that the ability to carry extra remittance information is a worthwhile objective that should assist in reconciliation and offer improved functionality for end users. Further noting that where identifiers are used they are passed on unchanged or transformed.

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

Hyperlinks may cause concern from a security point of view with the potential for links to contain malicious content which would need to be addressed by relevant controls particularly on the receiving party and also potentially the content provider.

<u>Implementation (Section 3)</u>

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?

Any implementation of all, or some of the requirements will need to take into consideration the impact and cost to the Market Infrastructure and its Participants. Timing of implementation will need to be considered against other priorities both for domestic and international cross border initiatives, particularly when they are being enabled on the same platform.

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?

In general, the objectives to achieve better harmonisation in principle are worth striving towards. However, any proposed solution and approach needs to consider in detail the impact to each Market Infrastructure and its Participants. Compromises may need to be accepted as being inevitable due to the need for proprietary solutions catering for specific market needs and other critical priorities that may affect a particular market. Future developments such as hubs for interlinking RTP platforms between countries may assist in resolving some of the friction points, and as a result, achieve a number of the intended objectives whilst also providing a more efficient and effective experience to end customers.