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Secretariat of the
Committee on Payments and Market
Infrastructures

Bank for International Settlements, Basel

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Deutsche Bank response to the Committee on Payments and Market Infrastructures' (CPMI) consultation on "ISO 20022 harmonisation requirements for enhancing cross-border payments"

Dear Sir or Madam,

Deutsche Bank (DB) welcomes the opportunity to provide our views on the contributions of the further harmonisation of ISO 20022 standards for the benefit of improving cross-border payments in line with the objectives of the G20 roadmap.

Standardisation and interoperability are key priorities for the financial industry to create a seamless and friction-free payment landscape. The globalisation and digitalisation of societies, value chains and industry sectors require efficient and global payment services.

We believe that the outlined principles in the consultative paper are supportive for this objective. However, the envisaged timelines and scope will require some adjustments to arrive at a feasible and realistic approach: considerations around status quo of some jurisdictions and interdependencies along the payment value chain must be incorporated. Acknowledging these will help the global community to adjust to this evolving ecosystem. For example, this may be achieved through prioritising certain payment corridors or payment types.

Whilst we do agree with the majority of proposed requirements, we consider some to be more beneficial than others. Proportionality of effort versus benefit must be considered for all members of this global community. The proposed use of unique end-to-end transaction reference (UETR), for example, will be a significant challenge for the corporate sector and should be limited to the payment industry.

Finally, we also caution to mandate the use of structured identifiers (e.g., LEI) as a minimum data set requirement before a globally agreed governance standard is in place. The digitalisation of identifiers for both, businesses and citizens, is largely work in progress and must mature further before mandating their use.

We are looking forward to further elaborate on these points and the attached detailed response in the CPMI cross-border payments interoperability and extension task force.

Yours sincerely,

Marc Recker
Global Head of Institutional Cash Management

Christian Fraedrich
Head of Cash Business Architecture /
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Committee on Payments and Market Infrastructures – consultative questions

BANK FOR INTERNATIONAL SETTLEMENTS

Deutsche Bank response

ISO 20022 harmonisation requirements for enhancing cross-border payments

May 2023

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1 Background

The Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) has worked with financial industry representatives (Payments Market Practice Group experts) on the definition of technical harmonisation requirements for the use of ISO 20022 messages in cross-border payments. The proposed introduction date of the requirements would align with SWIFT's decision to remove the ability to send cross-border MT payment messages over its network in 2025.

For the Indian G20 Presidency the ISO 20022 harmonisation requirements are a key deliverable under the G20 cross-border payments programme. The CPMI therefore invites the public to send comments on the consultative report, which sets out the ISO 20022 harmonisation requirements, 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 joint task group and will also be published on the website of the CPMI.

As next steps, the report will be revised in response to the consultation and the final version will be delivered to the Indian G20 Presidency by end-2023.

CPMI consultative report on ISO 20022

2 Consultation questions and DB response

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?

We agree with the guiding principles as set out in Section 2.2. In line with the recommendations outlined in the report, we believe the end-to-end approach is crucial for the harmonisation of cross-border payments. We acknowledge, however, that while the end date for the coexistence period (currently expected in November 2025) will foster ISO 20022 introduction in the interbank space, there are other areas, such as Payment Initiation, not affected by this deadline. This implies that such areas may continue using currently widespread formats, which do not satisfy the requirements proposed in this report. Likewise, certain Market Infrastructures, which have not yet migrated or do not have plans to migrate to ISO 20022, may impact cross-border payments processing by imposing local requirements, not in line with the CPMI. Based on the above, further engagement is needed to facilitate the introduction of ISO 20022 standard.

Block A – Fundamentals

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?

We support the introduction of targeted message types for specific business processes and believe that a requirement to use the appropriate message will increase efficiency of payment processing.

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.

We believe that a requirement of a consistent use of messages will contribute to mitigation of the risks of deviation from the business functions defined by ISO 20022. Additionally, a harmonised use of the message versions should be fostered to reduce the need for mapping. In combination with the intelligence expected to be provided by the central Transaction Manager platform in correspondent banking, as well as benchmark reporting, this will further improve the efficiency of cross-border payments.

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?

Due to the widespread and yearslong usage of current market practices as well as high number of changes required for operational processes, we expect the level of effort to be high, in particular, for non-ISO native small and midsized financial institutions, so called "longtail" users.

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?

Yes, we believe the use of commonly agreed codes (as opposed to the proprietary options, which leave room for interpretation) would facilitate straight-through transaction processing. The implementation effort is expected to be high due to the introduction of new code word logic (e.g. participant vs. universal identification options for CHIPS clearing) and the need for maintenance of the external code lists.

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?

Potential challenges associated with the reliance on ISO 20022 codes could include the need for the regular updates of the code list version. Given that the external code list is being updated on a quarterly basis, there is a risk of variating directories used across financial institutions, which may lead to rejects in case the respective systems are not programmed to support the newest version. Additional point to keep in mind is that external codes very often refer to a specific service level or process which must not only be understood by the receiver but agreed and enabled.

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

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.

Considering that the Category Purpose element is widely used by the industry (banks and Corporates), adding the cross-border payments flag would require the change of the message structure (to allow multiple occurrences) across numerous messages. This will come with significant investments and hardly any benefits. The industry is currently differentiating the processing of messages based on their nature, often identified by the attributes available in the payment (such as the agents in the payment chain) or payment instrument.

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?

As per our reply above, we believe that rather than imposing a costly change on the industry, using the attributes available in the payment itself (such as the Country Code of the agents in the payment chain) are sufficient to identify a payment as cross-border vs. domestic.

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

High.

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

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?

Yes.

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.

Yes, in line with the current ISO 20022 usage guidelines.

Block B – Transparency

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.

We fully agree that the use of UETR will have a positive impact on the cross-border payments. Since the introduction of this unique identifier in 2017, the industry has been benefitting from the new level of transparency and end-to-end tracking.

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

Mandatory UETRs have already been introduced for certain types of messages (e.g. MT103 and MT202) for years. The estimation on the effort required is dependent on the message types to which this requirement will be applied in addition, i.e. the scope of messages. For Corporates, for example, the generation of the UETRs is expected to come with high effort, which could be overcome by allowing the introduction of the UETR at the point of the first servicing agent.

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?

While we understand the objective, we must be mindful of the cost and effort of the implementation. We believe that the introduction of the UETR for customer credit transfer and the gpi Tracker addressed the transparency objective already. The industry is in the position to view the cross-border status of the payment at any time (including the total time of 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?

Considering the Acceptance Date Time element is currently used for other purposes, e.g. SEPA, re-using the same with a different objective in cross-border payments is likely to introduce confusion. Furthermore, the effort for the industry to implement such a requirement should not be underestimated and is expected to be particularly high for pacs.009 (Financial Institution Credit Transfer) and pacs.004 (Payment Return) messages as they do not currently include such element. At the same time, we believe that the objective of measuring the end-to-end execution of cross-border payments, could be achieved based on the UETR and current data elements in the message.

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

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

We believe that such requirement will further foster transparency of cross-border payments.

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?

While majority of the industry provides that level of transparency already, we observe for some very exotic currencies multiple conversations in the payment chain. The current message structure does not allow granular reporting on those and may require the enhancement of the messages, which based on its nature will come with significant implementation effort.

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)

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?

Yes, we fully support the introduction of such code.

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?

The introduction of such code would set a new standard in cross-border payments processing, representing a "quality seal" with the potential to become the new normal.

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

Usage of such code would imply compliance with the outlined requirements, which represents a high effort for financial institutions, in particular, to be achieved by November 2025 given the switch to full ISO 20022 processing and variety of other projects.

Block C – Structured and coded data

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.

Yes, we believe the usage of harmonised and structured account identifiers is a future-proof strategy and will have a positive impact on cross-border payments. While we advocate for a single account identification by account numbers (or other usual account data attributes), we acknowledge certain complexities associated with account proxies, e.g. these must be verified, validated and reconciled with the underlying account numbers, which translates into higher operating costs.

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.

Yes, we believe such requirement has the potential to remove friction in payment processing in absence of unambiguous identification of a financial institution in the payment chain, facilitate straight through processing and decrease false positives as result of sanctions screening by removing ambiguity.

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?

We agree that this is the target state to strive for. At the same time, we need to consider that certain markets do not use BICs. Therefore, the introduction of such requirement will require further engagement and education on the benefits.

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?

a) This is our preferred approach, which we do not associate with the high level of effort.
b) In line with our reply to your question #23, we believe that the awareness about the BIC as a neutral ISO standard with institutions in certain markets with identification options other than BIC is limited and will require education and guidance. While the cost of obtaining a BIC is limited, these institutions will have an implementation effort to satisfy this requirement.

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.

We agree that this is the target state to strive for. However, we need to carefully analyse the impact on the underlying clients (e.g. Corporates) associated with the introduction of fully structured data and potentially reconsider the requirement. Requiring structured data only is likely to have negative impact on the industry's Anti-Financial-Crime due diligence on payments, as data records on counterparties held with Corporates usually show a basic structure with the distinct Town Name, Postal Code (if available) and Country only. In lack of a standardized postal address globally, the remaining data is compiled in free format lines with no possibility to derive the data attribute as defined by the ISO 20022 standard. Insisting on full structure (network validated) will lead to the removal of all other address information, which is key in fight of financial crime, such as fraud or AML. With the technology advancing, we believe allowing a semi-structure (a combination of structured data elements and two lines of free format) with the minimum of Country and Town Name in the structured format will ease the implementation, improve the sanctions and embargo processes, pre-payment execution and facilitate all other Anti-Financial-Crime analytics post processing.

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?

Recommending the usage of structured identifiers such as LEI is our preferred option in the long term. However, requiring LEIs at this point in time is precipitated in the absence of an existing global governance approach and will create a high burden for the underlying customers, in particular, for small entities without resources for registration and maintenance of LEIs.

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.

Yes, this will enhance sanctions processing and help avoid manual handling associated with the “false-positive” sanctions hits.

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.

Please refer to our reply to question #25.

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?

We agree with the suggested approach. Considering various practices of capturing address information worldwide, requiring any additional fields may pose a challenge for some jurisdictions, while Town Name and Country represent universal information.

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)

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?

Yes, we believe it will help harmonise the way Remittance Information is submitted and have positive impact on the reconciliation of payments.

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?

The ability to include reference to separately sent information (Related Remittance Information), in particular, if the location of the Remittance Information is identified with a URL (hyperlink), comes with new challenges. While the expectation from the regulator on the compliance/Anti-Financial-Crime due diligence required on those is still unclear, the usage of URLs in payment messages comes with the associated cyber risk, as shown in markets such as Singapore. In addition, this represents a challenge for archiving (e.g. for AFC screening purposes) since the information under an URL can be changed at any time. Before supporting such an option, additional guidance from the regulator and a clearly defined market practice must be agreed.

Implementation (Section 3)

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?

Yes, it is in line with industry expectations as of now. However, a review of the timelines must be considered based on the success of the ISO 20022 deployment and the potential challenges with regards to "longtail" users, corporate-to-bank space as well as Market Infrastructures that currently do not have plans to migrate to ISO 20022.

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?

Yes.