Brussels, 31 May 2023

EACT's response to the Committee on Payments and Market Infrastructure (CPMI) Consultative report ISO 20022 harmonisation requirements for enhancing cross-border payments

The EUROPEAN ASSOCIATION OF CORPORATE TREASURERS (EACT) is pleased to provide comments to the Committee on Payments and Market Infrastructure (CPMI) Consultative report ISO 20022 harmonisation requirements for enhancing cross-border payments.

First, the EACT agrees with the CPMI's and the Payments Market Practice Group's (PMPG) joint task force (JTF) that the adoption of structured data within ISO 20022 will enhance the efficiency and effectiveness of transaction screening for compliance and other purposes such as fraud prevention, resulting in a faster, more inclusive, and cheaper cross-border payments ecosystem. As highlighted in the consultation paper, the limited adoption of the ISO 20022 messages by end customers (i.e., corporations) imposes a further challenge for harmonisation. All relevant stakeholders, including Financial Stability Board (FSB) jurisdictions, payment system operators and participants, should encourage adoption by end users. Against this background, the EACT agrees that the functional and multipurpose design of the data fields by CPMI and JTF plays a crucial role in encouraging the adoption by end users, namely corporates. As an example, the EACT would like to highlight that we ask for broader use of the Legal Entity Identifier (LEI) for account verification (which helps to address potential fraud in payments) and efficient sanctions screening in payments (which is a legal requirement).

An ineffective and inconsistent adoption of ISO 20022 will undermine the objectives and efforts of implementing ISO 20022, a highly undesirable outcome for all. Furthermore, an important component of an effective and consistent adoption of ISO 20022 is the use of a truly global identification scheme for involved entities (see the broader G20 cross-border payments initiative building block 16 Establishing Unique Identifiers with Proxy Registers). The EACT's consultation response highlights the G20 cross-border payments initiative's prioritisation of exploring the LEI as the identifier for entities in cross-border payments. The EACT will provide detailed clarification on these concerns in its responses to Q22, 23,25, 28 and 29.

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.*

Uniquely identifying all financial institutions (FIs) involved in cross-border payments in an internationally recognised and standardised way would enhance cross-border payments and facilitate message flows between endpoints. As suggested in the report of the International Finance Corporation (IFC) of the World Bank, for a correspondent bank, establishing the identity of the respondent bank is a fundamental element of due diligence. The **LEI can help to overcome the informality gap**. With banks using a range of different legal entities for different domestic and international payment processing activities (including the impact of ring-fencing in the UK), the EACT suggests that the unique identification of financial institutions should be performed with the combination of the Business Identifier Code (BIC) and the LEI given their global and complementary nature. This will avoid any confusion and ensure that banking notifications and updates can be applied correctly.

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 EACT agrees with the use of the BIC but suggests that the BIC alone is not enough for identifying FIs. FIs might have multiple BICs but only one LEI. As highlighted in a paper published by the Society for Worldwide Interbank Financial Communication (SWIFT) PMPG and endorsed by the Wolfsberg Group, bank identification fields can be a source of confusion when free format names and addresses are used rather than structured data elements such as BICs and LEIs. Therefore, the identification of FIs should be performed with the **combination of BICs and LEIs** given their global nature, which makes them particularly effective in identifying sanctioned entities or reducing false positives. Specifically, Table A2.2: CPMI data model for FIs (ISO 20022 'Agent') should include a cardinality of one for the LEI (1,1) and BIC (1,1) and therefore 'Required' for the CPMI data model. We think that the BIC is not a precise identifier of a FI. Please see this example:

BIC – LEI – Entity name

HBUKGB4BXXX – 549300G717XMVN87UL79 – HSBC PRIVATE BANK (UK) LIMITED

HBUKGB4BXXX – 21380081EP12LC86CB82 - HSBC UK BANK PLC

HBUKGB4BXXX – 213800LH7QCHIR3JI632 - SILICON VALLEY BANK UK LIMITED

BIC to LEI Mapping is free accessible via the Global Legal Entity Identifier Foundation (GLEIF) Application Programming Interface (API) (see here the CSV download). Such as in the example above, two codes are needed as the BIC is the routing key and the LEI provides precise identification of the legal entity involved.

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.*

The principle of a global unique identifier for entities involved in cross-border payments is endorsed in the G20 roadmap to enhance cross-border payments (see building block 16). Furthermore, the FSB July 2022 Report on LEI and cross-border payments describes how a unique global identifier linked to account information in payment transactions would facilitate straight through processing (STP), reduce costs, enhance accuracy and increase speed in transactions as well as assist market participants in meeting Know-Your-Customer (KYC) requirements. Therefore, it is advisable to add a specific field for the LEI of the Debtor/Creditor in payment messages. The EACT suggests that the Table A2.1: CPMI data model for person/entity (ISO 20022 'Party') should allow to include a cardinality of one for organisation identification – LEI (1,1) –. We are aware that the LEI is well adopted by large corporates but still need to be widespread among small and medium size corporates, for that reason we recommend leaving this field as optional.

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? Are there alternative approaches that you would suggest?*

As highlighted in the PMPG White Paper: Global Adoption of the LEI in ISO20022 Payment Messages – 2021, adding the LEI as an optional data field within the ISO20022 payment messages can maximise benefits in screening, transaction monitoring and fraud prevention. The LEI should be used to identify any originator or beneficiary legal entity, especially in complex scenarios where many entities are involved (i.e., correspondent banking or multi-party payment chains). As such, the EACT suggests the Table A2.1: CPMI data model for person/entity (ISO 20022 'Party') should optionally include a cardinality of one for organization identification – LEI (1,1) –.

Questions 28 and 29*. 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. 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 EACT agrees that more structured postal address information can help enhance the processing efficiency of cross-border payments. That being said, without leveraging a central database for referencing the address information associated with a legal entity, there will always be different interpretations of this information. As such, the guidance document should clearly state an LEI + Name or in alternative Name + Town + Country when no LEI is available.

About the **European Association of Corporate Treasurers (EACT)**

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