

May 2023

EBA CLEARING response to ISO 20022 harmonisation requirements for enhancing cross-border payments¹

EBA CLEARING welcomes the opportunity to comment on the CPMI's proposals to encourage consistent use of the ISO 20022 standard.

EBA CLEARING operates three pan-European payment systems, EURO1, STEP2-T and RT1, each of which uses ISO 20022 messaging standards. In its response below, EBA CLEARING draws on its recent experience of migrating the EURO1 large-value payment system to ISO 20022. For STEP2-T and RT1, EBA CLEARING has further experience in adapting each system to a new version of ISO 20022 as required by the European Payments Council (EPC), and in alignment with the rest of the SEPA payments industry. In addition to the EPC, EBA CLEARING contributes to other industry associations dedicated to harmonising ISO 20022 standards, such as CBPR+, IP+ and HVPS+.

Please see EBA CLEARING's response below to a selection of the CPMI's questions. Where EBA CLEARING has not responded to a question or indicated "no comment", it trusts that other stakeholders to whom such questions are more relevant, i.e. payment service providers, will provide the CPMI with their views.

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?*

EBA CLEARING agrees that the CPMI should support the uptake of the ISO 20022 messaging standard and propose the manner in which use of the standardised messages could facilitate cross-border payments.

However, as a first observation, EBA CLEARING would encourage the CPMI to focus on the overall objective – i.e. having a variety of domestic and regional payment systems that are resilient and interoperable, and that continue to innovate to provide faster and more cost effective cross-border payments – rather than defining the means with which the industry must achieve this objective. A single standard is not an objective in and of itself. There are many dependencies in markets that drive standards and one of the core benefits of XML, as compared to MT, is the richness and the flexibility it allows in modifying data elements.

¹ Published by the Committee on Payments and Market Infrastructures (CPMI) in March 2023 ("Report"), and available on this webpage: <https://www.bis.org/cpmi/publ/d215.pdf>

The CPMI's specific objective in this context should be interoperability, rather than requiring PSPs or payment system operators to make changes every time a different payment arrangement has a specific requirement as regards the standard. The IXB service, developed by TCH and EBA CLEARING, would facilitate translation of ISO-formatted messages between instant payment systems in different jurisdictions in real-time, thereby achieving interoperability without requiring all market infrastructures to use the same ISO 20022 standard in the same manner.

Second, EBA CLEARING notes that ISO releases new versions of the 20022 standard frequently and includes change requests addressing specific domestic or regional requirements that are not necessarily beneficial for other communities nor in a cross-border context.

Upgrading to a new ISO version requires a complex technical release, which involves significant resources. EBA CLEARING is concerned that, should the CPMI "requirements" enter into force, EBA CLEARING and the users of its systems would be required to dedicate time and resources to a migration to a new version of ISO 20022 potentially every year, irrespective of whether the new ISO version would bring specific advantages or even changes that are of relevance to all cross-border payment arrangements and the users of those arrangements.

Third, the European payments industry is already a global frontrunner in adopting the ISO 20022 standard. The benefits of *global* use of the standard will not accrue to the industry for decades potentially, given the huge differences in readiness in different regions. The CPMI's ambitious timeline would require European financial market infrastructures (FMIs) and their users to invest heavily in harmonised use of the ISO standard, as from 2025, without any guarantee that the rest of the world will follow. Absent global adoption, there is no benefit or first mover advantage to early migration to a particular version of ISO 20022, only costs.

Fourth, EBA CLEARING considers that the CPMI should issue "best practices" or "guidance", rather than "requirements" to use ISO messages – which are already, by definition, highly standardised – in a particular way. Existing and future payment arrangements can then consider such best practices/guidance in their decisions regarding the evolution of the types of messages to be processed by that arrangement, and in light of the overarching desire of the industry to maintain interoperability and achieve frictionless cross-border payments. EBA CLEARING further encourages the CPMI to leverage existing standardisation initiatives that are already focused on a subset of the message fields relevant to cross-border payments such as CBPR+ and IP+.

Finally, were the CPMI to issue "requirements", it would also be necessary for the CPMI to specify the consequences for non-compliance and provide clarity on associated liabilities (if any).

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?*

EBA CLEARING considers that the cross-border payment arrangement should determine the appropriate message for the business functions relevant to that arrangement. It is not necessary for this to be defined globally; it depends on the purpose of the arrangement.

It would be preferable for the CPMI to “encourage” or “recommend” the use of the appropriate message for a particular business function, to the extent possible, and in line with the requirements (if any) of the cross-border payment arrangement(s) under which the cross-border payment is being processed.

***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.*

Industry initiatives such as CBPR+ and IP+, which include broad industry representation and focus on the cross-border specific elements, are mitigating the referenced risks.

***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?*

Based also on its current experience of the ISO 20022 version upgrade in SEPA, EBA CLEARING considers that the level of effort is significant, depending on the changes to be included in each version upgrade.

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?*

Industry initiatives, such as CBPR+ and IP+, which include broad industry representation and focus on the cross-border specific elements, could address the use of externalised coders in the cross-border context.

***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?*

Certain codes have different uses or purposes depending on the nature of the payment arrangement. A requirement that every payment contains an externalised code could result in an erroneous use of codes, simply to meet the requirement to complete the field.

It would be preferable for the CPMI to “encourage” or “recommend” the use of externalised codes, to the extent possible, and in line with the requirements (if any) of the cross-border payment arrangement(s) under which the cross-border payment is being processed.

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.*

In the first instance, it is necessary to define “cross-border payment”. For example, would it include payments in the same currency? Would it include a domestic leg of a payment, the final beneficiary of which is another jurisdiction? Depending on the definition, the CPMI would further need to define which party in the chain would be responsible for identifying a payment as a cross-border payment.

Irrespective of the definition, it is difficult to assess in the abstract whether it would be useful to identify a payment as a cross-border payment. This identification could be useful if it were determined that a cross-border payment involves different or more elevated risks than a domestic payment, for example. The governance body of each payment arrangement should assess whether such a field would be useful, in light of the types of payment to be processed by that arrangement, and the risk mitigating measures foreseen by the arrangement.

It would be preferable for the CPMI to “encourage” or “recommend” that payments are flagged as “cross-border”, to the extent possible, and in line with the requirements (if any) of the cross-border payment arrangement(s) under which the cross-border payment is being processed.

***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 Category Purpose should denote the underlying purpose of the payment, rather than whether a payment is cross-border. The Service Level Code could be more appropriate, although it should be recognised there can be different “service levels” for cross-border payments, and subject to the comments above in response to Question 7 regarding the need for a clear definition of “cross-border payment”.

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?*

EBA CLEARING agrees that a restricted character set is helpful in relation to the fields that are necessary to process the payment. However, regarding name and address (Requirement #13), it could be unduly difficult to impose a restricted character set and lead to incorrect conversions.

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.

This issue should be resolved by standardisation initiatives, such as CBPR+ and IP+, where there is a broad industry representation present.

Requirements #6 and 7: No comment.

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

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?

Various industry initiatives aim to create transparency to end-users on the end-to-end conversion and the amount that will be credited to the beneficiary. In that respect, each party benefits from transparency to its direct counterparty in the chain. The exchange of information between all competing actors throughout the entire payment chain could be restricted by competition law.

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?

The CPMI service level agreement guidance has not been finalised. It is not clear, from the information available to EBA CLEARING, what the precise scope of the guidance will be.

FMI are already required to comply with the Principles for Financial Market Infrastructures (PFMI). Under Principle 23, FMIs are required to describe their compliance with the PFMI through a public disclosure report. It is not clear what the added value would be of an additional layer of “compliance”, if the CPMI indeed intends for the service level agreement “guidance” to become a binding standard.

It is an entirely novel concept to include a compliance guarantee within a payment message. If this were to become a requirement, it is essential that it is clear on whom the responsibility lies for determining adherence with the guidance under Building Block 3, as well as the associated liabilities (if any). For example, would the responsibility lie with the financial institution that denoted the payment as “adherent”, or should the governing body of the payment arrangement require all payments processed under the arrangement to carry this message? If the latter, does the CPMI foresee that the public sector (i.e. oversight) would publicly confirm that a payment arrangement adheres to the guidance?

Absent additional clarity on the guidance under Building Block 3, and how the CPMI expects payment arrangements to demonstrate compliance, it is difficult to foresee how the Building Block 3 guidance could be operationalised within a payment message.

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

As noted above in response to Question 18, if the CPMI were to require adherence to the service level agreement guidance, it is essential that it is clear on whom the responsibility for determining adherence with the guidance lies, as well as the associated liabilities (if any). Without such clarity, it would not be possible to implement the use of the code. The difficulty in implementing a CPMI service level code also depends on the function of the code, i.e. whether payment systems are expected to process this field in some way or whether it is simply to be transmitted along the chain (pass-through data).

Requirements #10 – 15: No comment.