31 May 2023

HSBC RESPONSE

Committee on Payments and Market Infrastructures (CPMI), Consultative report, 'ISO 20022 harmonisation requirements for enhancing cross-border payments': March 2023

HSBC appreciates the opportunity to respond to the CPMI Consultative report (CR) on ISO 20022 harmonisation requirements for enhancing cross-border payments.

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories. With assets of $2,990bn at 31 March 2023, HSBC is one of the world's largest banking and financial services organisations. With over $600tn of payments processed in 2022, HSBC is also one of the world's leading payments companies.

HSBC's global footprint and universal business model means we are always looking for ways to improve the payment transaction services we provide to our customers and increase financial inclusion. These aims are consistent with the goals of the G20 cross-border payments programme and we continue to support the work underway and the development of the Roadmap.

The HSBC response provides our global position on the CR and is based upon input from our network of global payment subject matter experts.

The main body of this document includes responses to each of the questions posed in the CR. In addition to responding to the specific questions, HSBC would like to highlight the following points:

1. **A phased approach should be used to implement the proposed CPMI harmonised requirements.**

   HSBC believes the proposed end of the CBPR+ co-existence period timeline (currently November 2025) for the full implementation of all of the proposed CPMI harmonised requirements across the end to end cross-border payment chain is too ambitious. (See response to question 32)

   However, the CBPR+ ISO 20022 scope of implementation for the end of the co-existence period incorporates many of the proposed CPMI harmonisation requirements, which when implemented, are likely to have a significant global impact on delivery of the G20 targets and end user benefits. HSBC therefore recommends a phased approach to the delivery of all of the CPMI requirements, initially leveraging the activity underway on the CBPR+ delivery as the first phase. In addition to reduce the introduction of frictions into the cross-border payment chain during this phase, HSBC also recommends any HVPS migrating to ISO 20022 should align to the CBPR+ interpretation of the standard.

2. **Enhanced global co-ordination and governance will be needed to align ongoing delivery.**

   To enable the delivery of a successful phased and consistent implementation of the harmonised requirements and their ongoing evolution to meet future needs, will also require enhanced global co-ordination and governance, including:

   - A Global Standards Forum: to develop and oversee an overarching ISO20022 rulebook, to which each of the market practice guidelines will align.
   - A Global Regulatory Alignment Forum: to support alignment of jurisdictional regulations that impact the content and monitoring of payment messages.
   - A Global Roadmap: to support phased planning alignment and minimise disruption to cross-border payments during any rollout.

3. **Further clarity is required for some harmonisation requirements focused on the provision of transparency.**

HSBC are continually looking for opportunities and delivering changes to provide our customers with increased transparency of their payment transactions. However, for some of the requirements (#3, #7, #8, and #9) aimed at contributing to the transparency targets, we believe in their current state may not provide the desired transparency outcomes for end users.

Before progressing these requirements to implementation HSBC would welcome a wider discussion on the definitions of the information to be captured and expectations for its use.

HSBC would welcome the opportunity to discuss any of the points raised in this response and support the provision of further industry insights to enable the progress of the G20 cross-border payments work.

HSBC Consultative Report Questions Responses

GUIDING PRINCIPLES

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?

HSBC agrees with the guiding principles that the requirements are ‘G20 targets-focused’ and ‘platform and network neutral’.

HSBC also appreciates the ‘orientation to a presumed future state’ for the requirements implementation to begin at the end of the co-existence period, currently scheduled for November 2025, based on industry readiness, rather than for the transition period up to that point in time.

Regarding the principle ‘ambitious yet realistic’, as detailed further in the response to Q32, HSBC believes that it is unrealistic to expect that the full scope of the CPMI harmonisation requirements across the end to end cross border payment chain could be implemented by the end of CBPR+ co-existence period.

A: FUNDAMENTALS

Requirement #1 – To use the appropriate message for a particular business function

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

Yes, HSBC agrees and also agrees on the list of messages in scope for harmonisation.

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.

Developing the CPMI’s ISO 20022 harmonisation requirements into an overarching ISO20022 rule book to which all market guidelines align, will limit opportunities for deviations in interpretation and the resulting inconsistent use of messages. The rulebook should contain sufficiently detailed requirements and use cases to remove ambiguity for the intended use of the message, as well as support the seamless movement of payment messages through different Payment Systems in the payment chain.

This global level co-operation and collaboration is likely to require ongoing oversight from a new global governance forum that covers all of the market practice guidelines in the end to end journey. Further global level co-operation and governance will also need to be considered to align jurisdictional regulatory requirements and guidance on the expectations and obligations for validating the payment message information.

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?

At a global level significant effort will be required to develop and continue to evolve the overarching ISO20022 rulebook and alignment of the market practice guidelines, to meet current and future payment needs and oversee consistent implementation.

Further significant effort will be required to gain commitment from Payment System Operators to adhere in full to the detailed guidelines and in some cases to modify implementations already in place. Meanwhile, FIs will need to update processing to align and in many instances remove workarounds.

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

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, requiring the use of ISO 20022 externalised codes, would facilitate faster, cheaper and more transparent cross-border payments, for payments to and from jurisdictions that have regulatory requirements for the inclusion of specific detailed information in a message. However, it should be noted that in some circumstances proprietary code words will remain relevant to support bilateral arrangements that are not captured in the standard codes.

Implementation of the ISO20022 externalised codes would require international co-ordination and collaboration to align jurisdictional regulatory requirements; as well as gain agreement to discontinue the use of free text, and on how to respond if codes are not supported by the instructed agent.

As an example, from a CBPR+ perspective purpose of payment is an available and supported field, the use of which would not require a change to the ISO20022 payment message. However, significant effort will be required by FIs to update all customer channels to accommodate the new codes and educate their customers on their appropriate usage.

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?

Challenges may arise where payment schemes have either not migrated to ISO 20022, or potentially do not use the ISO 20022 codes. In these instances, official mapping of the codes would be required to support alignment between two different entries.

Additionally, ISO 20022 codes would need to be updated to accommodate new use case requirements. This could be addressed by maintaining both the ongoing commitment of local regulators to the approach and the validation and approval by the ISO 20022 Standard Evaluation Groups (SEGs) composed of industry experts that review lists on a quarterly basis.

Requirement #3 – To indicate that a payment is a cross-border payment

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.

HSBC believes that identifying a payment as a cross-border payment would not enhance the processing efficiency of a cross-border payment, as this information is not necessary for processing.

If the flag could be relied upon, there may be some benefit in the addition of the flag for domestic financial crime screening. However, as outlined in the response to Q9, the challenges to deliver this reliably are significant.

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?

If such a code is required, HSBC would suggest an additional field is added to the payment message to accommodate the very specific purpose of the flag.

The current ISO20022 implementation only supports one instance of Category Purpose code and trying to expand this field to accommodate additional uses could create unnecessary complexity for the FI applying the flag, along with confusion and inefficiencies when processing.

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

The level of implementation effort for a cross-border flag would be extensive impacting all Payment Systems and FIs in the end to end payment chain to support the accurate application and transmission of the cross border flag, that could be relied upon. The opportunity costs are likely to outweigh any payment processing benefits.

Prior to any implementation, key challenges would need to be addressed including: the definition of a 'cross-border' payment, particularly within the context of cross-border payment chains that involve domestic payment systems; confirmation of the obligations of stakeholders in the payment chain; and potentially mechanisms for validating the application of the flag.

However, if a driver of the cross border flag is to support tracking and measurement of the progress towards the G20 cross border payment targets, HSBC would welcome a wider discussion on tracking and measurement to understand how this proposed flag may work and to consider other solutions that may be viable alternatives.

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

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?

Today, the CBPR+ market guidelines covering the international step in a cross border payment chain restricts the use of characters as outlined. For the initial phase of the ISO 20022 harmonisation requirements implementation, HSBC agrees that this practise should continue to limit complexity as much as possible.

The use of the restricted character set though should not be extended to include domestic steps, or alignment of domestic Payment Systems in the end to end cross border payment chain, where local character sets should continue to be permitted to support transparency for the end users. However, standardisation of translation mapping of local character sets to the restricted Latin character set used by CBPR+ should be made available.

To reflect the languages of the payment message users, longer-term a roadmap should be developed to widen the scope of the character sets that may be used end to end in a cross border payment chain.

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

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, HSBC agrees that requiring times in ISO 20022 messages to be stated either in UTC (preferably) or in local time with UTC offset will enhance the efficiency of cross-border payments, However, this requirement should not be extended to the customer channels.

B: TRANSPARENCY

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

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.

HSBC agrees that requiring the use of a persistent UETR for all cross-border payment will have a positive impact on the transparency, speed and cost of cross-border payment.

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

Use of a UETR is already required for the cross border (CBPR+) step of the cross border payment chain. However, as the CR outlines, persistent usage throughout the end to end cross-border payments chain could entail some cost and effort, requiring the domestic Payment Scheme alignment and rollout. Furthermore, to support corporate client reconciliation processes, generation of the persistent UETRs should not be the sole preserve of FIs and corporates should also be able to continue to generate their own UETRs for use in the end to end payments chain.

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

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?

HSBC fully supports the aim to provide customers with greater transparency of their cross-border payments and continues to develop and implement global solutions to deliver this ambition.

However, the inclusion of the time of debit of the debtor and time of credit of the creditor in the payment message, would not necessarily improve the end user experience, as the debtor and creditor are already informed of when their accounts are debited and credited. Additionally, without universal SLAs or reliable time estimates for the length of time from the time of debit to the time of credit, the value of these time stamps is limited from a transparency perspective.

If a driver for the inclusion of this information in the payment message is to support tracking and measurement of the progress towards the G20 cross border payment targets, HSBC would welcome a wider discussion to understand how these proposed additions may support these aims and to consider other solutions that may be viable alternatives, (for example SWIFT gpi).

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?

Acceptance time date is included in the ISO20022 standard, but excluded from the current CBPR+ implementation. Further definition of the requirement and use cases would need to be included in the proposed overarching rule book (see Q3) and aligned throughout all market practice guidelines.

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

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

HSBC fully supports the aim to provide customers with greater transparency of their cross-border payments and continues to develop and implement global solutions to deliver this ambition.

However, implementing this requirement in isolation is unlikely to have the desired outcome to provide 'full transparency' to end users, as providing the information in the payment message itself does not mean the end users will have visibility, especially the payer. Reporting tools are needed to share the information contained within the payment message with the end users.

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?

The ISO 20022 standard already provides for the inclusion of the instructed amount, instructed currency, exchange rate, charge amount and charge currency as optional fields available in the pacs.008 format. Further definition of the requirement and use cases would need to be included in the proposed overarching ISO20022 rule book (see Q3) and aligned throughout all market practice guidelines. Internal FI system updates may also need to be made to include the proposed complete information in a payment message.

From a legal perspective further clarity on the information to be included in the payment message is needed to understand if there may be competitive issues. There would be no legal objections to providing publicly available information in the payment messages.

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

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?

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?

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

Further details on the contents and application of the CPMI service level code is required to understand how adherence may facilitate improvements to cross-border payments processing. This will include confirmation of which participants in the payment chain would apply and validate this indicator.

C: STRUCTURED AND CODED DATA

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

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, HSBC agrees, as the provision of unique account numbers (or proxies) to the extent possible will support the efficient crediting of customer accounts at the beneficiary FI.

The provision of unique account numbers (or proxies) would also support the development of a beneficiary validation service which would have a positive impact on speed and cost by reducing friction and delays caused due to incorrect information.

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

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.

HSBC understands 'FI' to mean any organisation that is engaged in transacting the end to end cross-border payment.

HSBC agrees that uniquely identifying all FIs involved in cross-border payments in a standardised way enables more efficient processing and screening of payments.

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?

A BIC should not be mandatory to identify FIs in the ISO 20022 payment message.

The industry has already adapted to accommodate jurisdictional FI identification schemes in place today and moving all FIs to the BIC standard would have little impact on achieving the G20 cross-border payment targets.

However, due to the widespread use of BICS to identify FI's in practice today, it should be strongly encouraged that BICS are used for any jurisdiction wishing to adopt a new FI identifier solution.

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?

HSBC is providing a global response. However, the effort required for all jurisdictions and FIs to move to the use of a BIC is expected to be significant.

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

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.

HSBC understands 'entity' to mean any organisation or business that may either be the debtor, ultimate debtor, creditor, or ultimate creditor, in a cross-border payment transaction.

HSBC agrees that imposing a minimum data requirement to identify all entities in a cross-border payment message by providing Name and Postal Address using the relevant structured and standardised message fields would enhance the processing efficiency of cross-border payments.

This approach would enhance the processing efficiency of cross-border payments by facilitating screening processes, reducing false positives and reducing manual intervention.

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?

Structured identifiers such as the LEI should not be a mandatory requirement for inclusion in the payment message.

The minimum required data of Name and Postal Address may be complemented, not substituted, with additional information.

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

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.

HSBC understands 'person' to mean an individual that may be either the debtor or creditor in a cross-border payment transaction.

HSBC agrees that imposing a minimum data requirement to identify all persons in a cross-border payment message by providing Name and Postal Address using the relevant structured and standardised message fields would enhance the processing efficiency of cross-border payments.

This approach would enhance the processing efficiency of cross-border payments by facilitating screening processes, reducing false positives and reducing manual intervention.

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

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.

HSBC agrees, that only using structured postal address information can help enhance the processing of cross-border payments.

As outlined in the CR, the use of only structured postal address information can help processing efficiency of cross-border payments as it would allow for more targeted and accurate screening of those involved across the payment chain. This would reduce the number of "false positives", enhancing speed and lowering costs.

However, there will be significant challenges and costs to collecting all postal address information in a structured way and the processing benefits may be realised by using a 'semi-structured' approach.

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?

Yes, HSBC agrees with the minimum required postal address information consisting of the Country and Town Name fields, to realise the benefits of a 'semi-structured' approach.

If other details are available, then it is acceptable to capture them in an unstructured field.

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.

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, HSBC agrees 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 information must be transmitted end to end in the payment chain with all information provided to the creditor. However, it should be noted that this would require significant implementation effort across the industry.

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?

For screening purposes, all of the information should be contained with the payment message (ie: no hyperlinks), in a format that the end user channels can accept and process.

IMPLEMENTATION

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?

Today, ISO 20022 implementation in the industry is focused on FI and SWIFT delivery of the CBPR+ requirements for the end of the co-existence period (currently November 2025); along with further HVPS migrations to the ISO 20022 standard, impacting FIs and Payment System Operators.

The CBPR+ scope, is highly complex and will depend upon significant changes across the industry and for customers to meet the end date, with HVPS migrations adding to the sizeable payments change agenda. On this basis, HSBC believes the proposed end of the CBPR+ co-existence period timeline for the full implementation of all of the proposed CPMI requirements across the end to end cross-border payment chain is too ambitious.

However, the CBPR+ scope also incorporates many of the proposed CPMI harmonisation requirements, which when implemented are likely to have a significant global impact on delivery of the G20 targets and end user benefits. HSBC therefore recommends a phased approach to the delivery of all of CPMI requirements, initially leveraging the activity underway on the CBPR+ delivery as the first phase. In addition to reduce the introduction of frictions into the cross-border payment chain during the first phase, HSBC also recommends any HVPS migrating to ISO 20022 should align to the CBPR+ interpretation of the standard.

During such a phased implementation, to minimise disruption to the cross border payments flows, a globally co-ordinated and governed roadmap will be needed.

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?

The requirements in section 2.5 do provide some clarity on how the harmonised implementation of ISO20022 can contribute to speed and cost G20 targets. It is the achievement of the speed and cost targets that the proposed harmonised requirements are most likely to impact.

However, as outlined above it is less clear as to how the harmonised requirements #3, #7, #8, #9 may contribute to the achievement of the transparency target, or target measurement, in isolation. HSBC would welcome further detail and insight on the G20 cross-border payment initiative expectations for the provision of the transparency to end users and how the information in a payment message may be used to track progress to targets, to support further shaping of some of the requirements and associated solutions.

Additional points to note:

The focus of the CR has been on the ISO 20022 message harmonisation. HSBC would like to highlight that there are other factors which impact the efficiency of payments processing including: the regulatory regime of individual jurisdictions, such as regulations for FX controls and specific sanctions screening requirements; availability of Central Bank liquidity; and clarity on the FCC obligations regarding the interbank movement of funds to enable local transactions initiated cross-border.