pay.uk

2 Thomas More Square
London E1W 1YN

+44 (0)20 3217 8200
www.wearepay.uk

Pay.UK's response to the BIS Committee on Payments and Market Infrastructures' Consultative Report: "ISO 20022 harmonisation requirements for enhancing cross-border payments"

Date: 31 May 2023

Sent to: cpmi@bis.org

Pay.UK is the recognised operator and standards body for the UK's interbank retail payment systems. We provide the payments networks used by Bacs, Faster Payments and the Image Clearing System (ICS), and also operate the Current Account Switch Service (CASS), enabling billions of pounds of payments to be made, safely and securely, every single day.

We are also developing the new implementation of the ISO 20022 data standard ready for the New Payments Architecture (the NPA) in the UK for retail payments.

Our Regulator has supported the adoption of the global ISO 20022 standard for industry, and has written this into specific regulation to ensure this is met and achieved. The Payment System Regulator's (PSR's) Specific Direction 2 explicitly noted that it had "concluded that the central infrastructure services provided under the first central infrastructure contract competitively procured in accordance with this specific direction should be capable of receiving and sending all relevant messages (used in the payment system) in the ISO 20022 messaging standard."

This stance and adoption approach for the new global standard, continues to be reinforced and championed by our external NPA groups & fora, overseen by the Strategic Participant Group (SPG) who have maintained that the migration to the ISO 20022 standard is a priority for the NPA programme.

We recognise that whilst we are the operator of domestic UK interbank retail payment systems, many of our customers also operate internationally and make & receive cross-border payments.

The implementation, opportunities and benefits of the global ISO 20022 standard is, therefore, a common feature for our customers and ourselves hence our interest in the Consultative report and the ability to reply.

We know that a consistent information exchange is key to unlocking a whole range of beneficial outcomes; the design of our future services reflect our choices to utilise the ISO 20022 to the optimal extent while aligning as much as possible with other market infrastructure operators to avoid contention or friction when making or receiving cross-border payments.

Therefore, we welcomed the opportunity to respond to the Consultative report and are responding jointly with UK Finance.

BIS CPMI consultation on *ISO 20022 harmonisation requirements for enhancing cross-border payments*

Date: 31 May 2023

Sent to: cpmi@bis.org

UK Finance is the collective voice for the banking and finance industry in the United Kingdom (UK). Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers, and facilitate innovation.

We work for and on behalf of our members to promote a safe, transparent and innovative banking and finance industry. We offer research, policy expertise, thought leadership and advocacy in support of our work. We provide a single voice for a diverse and competitive industry. Our operational activity enhances members' own services in situations where collective industry action adds value.

UK Finance and its members welcome the opportunity to respond to the CPIM consultation on *ISO 20022 harmonisation requirements for enhancing cross-border payments*. UK Finance views this consultation as an important opportunity to help promote consistent implementation of ISO 20022 and further improve cross-border payments.

The introduction and implementation of ISO 20022 is a fundamental strategic change for the banking and payments industry, as well as for stakeholders more widely. We think the approach taken by CPMI, in terms of its broad consultation approach and the mechanisms it has put in place to gather feedback from a wide range of stakeholders has been effective and the industry welcomes the CPMI's open and consultative approach.

UK Finance is generally supportive of the direction of travel laid out in the CPMI harmonisation requirements for enhancing cross-border payments. Payment services are, by nature, internationally interconnected services and aligning with global standards is the right approach. Globally, firms and infrastructures are moving to ISO 20022, and this move will help to ensure that the UK retains its place as world class.

Our members have welcomed the introduction of ISO 20022 standard by the Bank of England in its redevelopment of the RTGS. We also support the ambition and strategy for aligning future retail payment messaging with the new global messaging standard ISO 20022, given the wide range of benefits this will bring to customers, payment service providers and the UK more widely.

UK Finance and its members see enhancing cross-border payments as a priority for the industry. Market participants involved in cross-borders operations are supportive of the G20 initiative to enhance cross-border payments and view the implementation of ISO 20022 messaging standards as key to ensure consistent information exchange across markets.

While UK Finance and its members have focused primarily on the cross-border aspects of this consultation, related UK developments, as noted above, are also relevant. Therefore, we have elected to respond jointly with Pay.UK, as the recognised operator and standards body for the UK's interbank retail payment systems, in charge of developing the implementation of the ISO 20022 data standards at the UK domestic level.

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?

Overall, both Pay.UK and UK Finance's members welcome and support the principles.

For an implementation of a such an ambitious scope, some UK Finance members think that a number of global co-ordination and governance structures are required to support timely and aligned implementation including:

- Development and oversight of a global roadmap, providing a prioritised and phased approach to implementation.
- A global governance forum to oversee (not manage) the overall ISO 20022 detailed guidance, to which the different market practice guidelines align. This will be required for the initial implementation, as well as to support the ongoing evolution of the payment messages.
- Global co-ordination of ongoing regulatory alignment, as effective and standardised implementation of the harmonisation requirements for the payment messages will also be dependent on the alignment of impacting jurisdictional regulations.

We support a platform & network agnostic approach that allows choice for customers and does not preclude new service or product providers, thereby increasing competition in this space. And, that no apparent 'preference' to a single, monopolistic platform or network is suggested; again, leading to collaborations, competition and catalysing innovation.

We acknowledge that a realistic, pragmatic approach should be taken to create support for and critical mass adoption of the recommendations in order to start see the benefits of harmonisation contributing to the G20's targets by 2027, and the growth opportunities.

- There is an appreciation that the 'orientation to a presumed future state' for the requirements implementation to begin at the end of the coexistence period, currently scheduled for November 2025, rather than for the transition period up to that point in time. Since, Payment Service Providers (PSPs) have already implemented, or are building for, their ISO 20022 migration, in order to limit the amount of rework required for harmonisation, it would be beneficial to develop the more detailed guidance required for aligned implementation at the earliest opportunity.
- Regarding the principle 'ambitious yet realistic', given the above, it is unrealistic to expect that the full scope of the requirements across the end to end cross border payment journey could be implemented by the end of the CBPR+ co-existence period.

The future state intends to provide inclusivity through consistency to a broad range of stakeholders across the cross-border payment chain, which we commend.

As long as this state remains open, transparent and responsive to change (such as the introduction of new payment 'types') and can wholly support interoperability and interlinking between jurisdictions and platforms, then we continue to be advocates for the approach.

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?

Yes. Misuse or inconsistent use of messaging standards increases the operating risks for PSPs, can be a barrier to entry or participation and can lead to delays and inefficient processing of payments.

There is support for the proposed solution, which should be widely communicated and reinforced by the CPMI and supporting organisations.

Inconsistent usage should be measured or highlighted and explained (when compliance or consistency cannot be achieved).

To mitigate the inconsistent use of messages or deviations will require the development of an overarching ISO 20022 standard to which each of the market practice guidelines should align to in full, containing sufficiently detailed requirements to remove opportunities for individual Payment System level interpretation.

These market practice guidelines should also align effectively with each other to ensure that payment messages can move through different Payment Systems and still meet all of the appropriate requirements at every step in the payment chain. We note in particular a need for harmonisation across CBPR+ and HVPS+.

It is expected that a new global governance forum will be required to oversee the development of the overarching guidelines and alignment of the market practice guidelines, as well as providing a structure for the ongoing evolution of these requirements.

We would go further and ask for recommendations and guidelines from CPMI and supporting bodies, in relation to versions and versioning control of the specific ISO messages in use:

- While we know that using the latest version is an existing recommendation, there is a risk, in our opinions, of a lack of consistent use or version control in a location; and
- We note that there are no recommendations to demise old versions to prevent local variances leading to potential friction; and
- This could lead to the persistence of a deceleration to processing speed and missing data, which typically add costs to repair messages across borders.

As an example, for domestic UK interbank retail payments, Pay.UK's rulebooks (as the operator) will also create obligations on its customers to use the right messages at the right times to achieve good outcomes and Pay.UK will be able to monitor when customers fail to respect the message types and usage through enhanced business intelligence and monitoring.

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.

It remains unclear how CPMI could require local market infrastructures to follow CPMI rules and we ask whether this could be mandated by strengthening the CPMI-IOSCO Principle 22 Communication Procedures and Standards?

A regime of good practice and attestation is welcomed; if consistent messaging use is mandated and monitored under the CPMI-IOSCO principles, financial market infrastructures and network providers would have to be assessed by these criteria.

An expectation should be that only current and minus one version of all the CPMI core ISO 20022 message sets might be supported. Any exceptions will have to be explained.

Any 'exceptional' use of a message beyond its intended scope as defined by the ISO 20022 standard must be well communicated to customers operating within and outside the impacted country. This should be made clear by using organisations and initiatives like ISO, SWIFT's CBPR+ and the PMPG to publicise such divergences.

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?
The migration to ISO 20022 is complex and subject to local interpretations; some messages are not yet totally defined or registered yet while others are already subject to a change request.

Generally, this good practice should already be exhibited by PSPs (Financial Institutions or FI's). It is possible that some PSPs have de-prioritised the implementation of the pacs.004, camt.056 and camt.029 and hence instances of the 'return of funds' being populated within the pacs.008 and pacs.009 messages are being seen. Good clear market practice outlining the issues that misuse can cause the receiving PSPs and the fact that this is bad practice should help to align the industry.

Training for Enquiry and Investigation users and Payment System Operators can also ensure that bad practices are not tolerated and the correct ISO messages are used.

As a recognised Payment Systems Operator (PSO), Pay.UK has defined, measurable design principles to which we adhere, based on selection of the most appropriate ISO 20022 messages to achieve our desired business outcomes for our customers. This included alignment with other financial market infrastructures to mitigate the risk of implementing the wrong message types or the unintended consequences of unnecessary message types.

Pay.UK has - with its customers throughout the standards development lifecycle and reinforced using a rulebook – identified and agreed the most appropriate ISO 20022 messages. Since many of Pay.UK's customers operate both in and outside the UK and noting the speed at which other ISO 20022 implementations are happening, we have highlighted where we will use 'common' messages with other market infrastructures to facilitate their ability to reuse their existing intellectual capital of those ISO 20022 messages to build economies of scale whole accelerating their developments in the UK. Where customers are new to ISO 20022, Pay.UK has provided them with mapping information from old-to-new messages to reduce complexity and cost.

Ultimately, a clear process for collaboration and communication will have to be put in place to ensure that ISO 20022 change requests should always consider these CPMI rules or recommendations in order to achieve alignment for cross-border 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?
We recognise the ISO 20022 External Purpose Codes List as the de facto default global list that ideally

should be clearing-agnostic to facilitate the exchange of ISO 20022 XML messages worldwide in support of the G20's aspirations for enhanced cross-border payments.

Maintaining strict alignment with the internationally agreed ISO External Purpose Codes List is very important and we would recommend further:

1. Not restricting the use of ISO 20022 External Code global list Purpose Codes within a particular jurisdiction or clearing system; and
2. Avoiding, where possible, generating additional, standalone localised codes to be added to the global list as this would rapidly become unwieldy.

Standardised and recognised externalised code lists can provide additional information that could lead to faster, cheaper and transparent cross-border payments.

- Faster: if required and supplied by customers, codes will support a higher degree of frictionless and straight-through payment processing e.g. by avoiding rejections/returns due to a lack of clarity regarding the purpose of the payment.
- Cheaper: inclusion of purpose codes should enable a cost-benefit by reducing operational inefficiencies from trying to interpret or make sense of inconsistent or missing data.
- Transparent: codes provide greater visibility into the reasons for payments, and use of consistent identifiers can aid 'screening' or reporting processes, contributing to improved risk management, regulatory reporting and overall operational efficiency.

The use of purpose codes may also support individual jurisdictions' work on operational resilience by helping to identify critical payments in the event of a significant incident, which adversely impacts payment flows.

The implementation effort rests with PSPs and their customers. Ensuring easy access to this "reference data" with simple definitions and usage guidelines (e.g. driven by specific use cases and user journeys) will help implementation.

However, feedback suggests that implementation is likely to be significant in terms of elapsed time including technical changes and customer education and rollout. And, should be undertaken with further consultation and agreement with PSPs and market infrastructures based on their assessment of the associated risks, costs and benefits.

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?

The current causes or limitations may be down to differing levels of reporting which may be driven by regulation or country specific requirements on reporting. Therefore, a key question to look into is whether these codes can be standardised and how that may be achieved. If every country wants to define purpose codes at different reporting levels the externalised code list could become unmanageable and lead to more issues than any benefits of using them.

The challenges will be the frequency of changes and how to manage them such that the integrity and trust in reference data is maintained. The lead and lag times to make and apply changes might be improved beyond today's timeframes to provide a more dynamic environment in which to propose and access changes to reflect changing payment purposes of interbank payments, new patterns and behaviours.

This reflects classic challenges for the payment community around agreeing on market practices and code use, and managing updates and maintenance of code lists.

For Pay.UK as a PSO, there are relatively good processes in place today using the ISO PaySEG to surface candidacy and stay aware of changes. However, that group is relatively closed in terms of membership or participation and this could be perceived as a detriment to other stakeholders. This create a dependency on Pay.UK to inform them of changes and elicit their inputs as candidates for change rather providing them with a means of directly participating in the process.

Another challenge to consider, in the context of cross-border payments and multinational organisations, is that payments may originate from different parts of a PSP's internal infrastructure or their international branch network, and also from a global client base. The intended purpose of any given payment may not always be obvious at the point of handoff to a domestic Payment System. In many cases this will have to come from the originating business or client and will have implications for their own payment processing systems.

PSPs will also need clarity on expected behaviours, such as message rejection, if a payment is received without a required Purpose Code or whether Direct Participants in a Payment System would be required to validate or enrich domestic and cross-border payments received from their clients.

From a practical perspective, consideration should be given to applying a transitional period where payments without purpose codes are still accepted.

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.

UK Finance members are unlikely to rely on a flag provided to them by another PSP; if an PSP omitted a "cross-border flag" and the beneficiary PSP did not perform any sanctions screening, the beneficiary PSP could still be liable if the payment was subsequently found to breach applicable regulations. So, they do not see the benefits of marking a payment as a cross border since PSPs would still have to perform their own due diligence on each payment, flagged or otherwise.

Pay.UK's powers to mandate *any* additional identifiers in UK interbank retail payments beyond ultimate debtor and creditor information and all Agents involved in the payment's journey, would require further consultation and agreement with our customers, based on their and our assessment of the associated risks, costs and benefits and any changes required to our standards and rules.

CPMI and the Joint Task Force might usefully engage with FATF and supervisory authorities on this question.

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?

Using a specific Category Code, if mandated, used consistently and monitored in terms of its effectiveness, appears to be a simple and pragmatic way to achieve the desired outcome.

Any new indicator or flag would only be effective if there is accurate and consistent usage in its application, and a clear understanding around the liability position of organisations that failed to screen a payment that is not flagged as a cross-border payment.

An option is to change the standards to allow Category Purpose as a repetitive element, but there would need to be clear guidance and changes to Payment Systems would be required to handle more than one code. For example, the existing CBPR+ and other financial market infrastructure schemas only allow for one purpose code which may be used to indicate the purpose of payment (e.g. a housing transaction) rather than the type of payment i.e. cross-border.

Alternatives might be to use a combination of standards and rules (‘rulebooks’) using the existing and multiple data elements with business logic to identify a cross-border payment e.g. using the LEI and/or BIC and/or address information with, or without, an added Category Code might suffice. The existing identifiers should be granular enough to know where a party is located or domiciled, to identify that this is a cross-border payment.

Question 9. How do you assess the level of cost and effort required for the implementation effort?
Alternative or new proposals in how to use external codes would require ‘unwinding’ or removal and replacement of existing practices and so likely comes with extra time and cost considerations as well as reengineering operating procedures. This should not be taken lightly against PSPs’ and their customers’ existing ISO 20022 development and change projects.

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?
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 implementation, this practice should continue to limit complexity as much as possible.

This limitation should not be extended to include domestic steps, or alignment of domestic Payment Systems in the end to end cross border payment chain, as it would not be beneficial to end users or support the transparency of their payments, hindering their ability to identify PSPs and payees. For example, Pay.UK agrees with the proposed character set and has considered the Character Set proposed by CBPR+ in its designs. However, Pay.UK has gone further; in order to cater for other indigenous languages within the UK beyond English i.e. Irish, Scots, Scots Gaelic and Welsh, other characters containing diacritics will also be used in our future design.

Standardisation of translation mapping of local character sets to the restricted Latin character set used by CBPR+ should be made available. And, 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 (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, UK Finance members largely agree with UTC or UTC offset as most local back offices monitor their daily business based on the local time). This solution would facilitate exchange for FX flows. And as the PSO, Pay.UK has designed for both date and time to be in the UTC format as defined in ISO 8601.

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 agree that the ability to track or trace every message would be a key success factor to deliver improvements to the transparency, speed and cost of payments.

UK Finance members agree that it will help customers and back offices to monitor a flow from end-to-end instead of having to reconcile positions (based mainly on the Value date and Currency and Amounts) which can lead to false positives (ambiguity) and resulting delays (friction) in current processes to rightly identify a particular transaction.

- Transparency between all organisations or entities involved in the initiation and processing of cross-border payments provides real-time tracking capability with the ability to enquire on a payment's location or state/status, delivering considerable improvements to the client experience.
- There should be speed benefits because having an effective way of determining where the payment is and its status should help to remove or friction, thereby enabling SLAs to be met.
- Cost improvements should be achievable given one should know where the payment is at any time thereby avoiding unnecessary enquiries or lags (friction) in operating processes, which create costs to organisations across the payment value chain.

A last consideration highlighted by UK Finance members is to ensure that each market infrastructure / clearings have logic to validate the uniqueness of the UETRs in use.

Question 13. How do you assess the effort required to implement this requirement?
Consideration of cost-benefits and implementation across the cross-border payments chain, including domestic operators and customers end-to-end, will have to be considered i.e. the implications extend beyond PSPs.

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?
If a driver of the inclusion of the time of debit of the debtor and credit of the creditor is to support monitoring of the progress towards the G20 cross border payment targets, a wider discussion would be welcomed on tracking and measurement to understand how these proposed additions to the payment message may support the work and to consider other solutions that may be viable alternatives. It is also critical that agreed terms – definitions – are known to all involved to mitigate the risks of different interpretations.

However, the insight, if proven, to be necessary might provide end users with performance data to enable comparison and a competitive choice of PSPs and so should be explored.

Further clarity would also be welcome to and determine all of the points in the end-to-end payment journey where transparency about timing would be beneficial to the end user and to identify where delays occur at which points in the end-to-end cross-border payment chain.

- While this could support transparency, we are cautious as to how the overall elapsed time between initiating and processing a payment end-to-end between the debtor and creditor would be consistently measured to ascertain bona fide timings.

- There are questions as to the value for either the payer or the payee in this proposal. The payer will already know when their account is debited and the creditor will know when their account is credited. The information will flow to the payee's PSP once the payment message reaches them.
- Even if the information is in the payment message, it does not mean that it will be visible by either the payer or the payee.
- It is unclear what concrete improvement it would bring as delays for a cross-border payment at the debtor agent end will likely be sanction-related.
- Further the suggested time of debit does not reflect the actual point of initiation - language needs to be unified across guidelines and regulations.

Some UK Finance members agree that previous examples such as SWIFT GPI tracker, have provided enhanced transparency. However, this example also illustrates the potential limited impact of such a requirement as the time of debit provided to the creditor doesn't always reflect the time the debtor account was debited. For example, payments initiated over a non-SWIFT financial institution means that it will not be possible to determine real-time debit as the information shown will be limited to the time when it was sent over to SWIFT.

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?
We expect there to be a high degree of difficulty without harmonisation and use of the UTC format to derive an accurate and consistent form of measurement.

Pay.UK has this built into its design for domestic UK interbank retail payments, and does not expect effort or transparency to differ by message type. However, the overall value of this "feature" might benefit some more than others in the payment value chain.

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?
There is some support from UK Finance members for more transparency of these fees to give end users greater granularity of their costs and stimulate heightened competition, through being better informed. However, consideration will have to be given to:

- How the relevant and timely information is provided to a debtor, as the information will be added during the payment's lifecycle and will only be fully available to the creditor.
- Confirmation of the information requirement variations that will be relevant to different users of customer segments e.g. the information required by a consumer versus a corporate making frequent high value FX payments will vary significantly as will their method of billing.
- Having visibility of such information does not necessary give the customer control over how their future payments will be processed and charged.

This potentially could create value for PSPs across the payment chain i.e. understanding where FX rates are disparate between financial organisations and where additional costs are incurred, with the potential choices to make provider changes or even adapt their propositions as a result.

While it is recognised that there is complexity of billing and charging arrangements applicable across a multitude of payment user segments, some members go further in asking for disclosure over a mid-market rate, using a mid-market rate API, which would allow for a consistent approach to data sharing across the industry.

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?
A cost-benefit analysis should be undertaken to fully understand how to overcome several potential hurdles identified by UK Finance members to the inclusion of complete information on amount, conversions and charges in cross-border payments that they process. Members note that:

- A payment may go through different propriety systems/apps at the start, middle, or end of the payment value chain, which can cause technical issues. Such issues may include difficulty in capturing the required level of detail.
- Client fees could depend on traffic (volumes and times of processing) and therefore not be available at the time of initiation. For instance, some types of clients may have monthly billing and volume discounts on transaction fees so that, at the time of payment initiation, the volume of transactions in the month, and hence the pricing tier that would apply, will be unknown.
- Clients may also have multiple fee pricing based on currency and instrument type or may be able to make transactions from a currency account but be billed in a different currency.
- There could be obstacles in the commercial contracts that currently underpin cross-border payment arrangements if there are existing confidentiality restrictions on disclosing the information under consideration.

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?
To derive value, this would have to be accompanied by a common and agreed set of rules. And in the absence of knowing whether a 'rulebook' will be delivered in conjunction with the identifier/s, and how and by whom the 'rulebook' might be administered, at this time we do not see why this would be necessary.

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?
If this creates new obligations via rules, then PSPs would have to consider the cost and liability of implementing, or not, such changes. This is not just a technical change but one with operational, risk and propositional implications e.g. the awareness, understanding, value/effectiveness and use of the code if visible to end users (i.e. if communicated what would such a flag mean to end users).

Question 20. How do you assess the difficulty of adopting a CPMI service level code?
We would assume that 'space' would have to be found within specific ISO 20022 messages with the potential additional cost to engineer and support what would be new versions of the messages.

Additionally, if this creates obligations, then business processes will have to adapt to support the changes as might product propositions. While this last aspect could potentially create competition, it might also raise the barrier to entry for some PSPs to the detriment of competition. As such a more detailed assessment would have to be undertaken to be able to comment further.

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, however, this requires a consistent manner in which identifiers or proxies "derive" the correct account information; the challenge would be on how to confirm that the account is valid, exists, and belongs to the customer.

Pre-validating the payment account information could represent a way to improve and confirm correct information before the payment is sent. Unfortunately, the topics of confirmation of payee / pre-validation are not being developed in the CPMI recommendations. UK Finance and its members believe that it could bring tremendous value and would recommend the CPMI to further investigate these topics.

Adding complexity or friction to making these determinations is the risk without a common approach and a thorough examination of the costs and benefits of implementation.

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.

UK Finance members say that there is a consensus (among members) that removing unstructured name and address of a financial institution (FI) and mandating a common FI identifier would improve efficiency, increase speed of cross-border payments and reduce the workload of back offices.

And, for Pay.UK as a PSO, this would provide transparency across the payment value chain and our design for the new UK interbank retail payments system requires at least the LEI to be used in this context. It increases trust and confidence regarding which parties are involved in the payment.

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?

UK Finance and its members also support the use of BIC as the unique identifier for FIs as this will improve addressing and routing as well as sanctions screening processes.

However, they also realise that there is the potential for conflict between the Bank of England and Pay.UK's support for LEIs as a common identifier over using BICs, for at least FIs and in the Pay.UK design for domestic UK interbank retail payments.

Pay.UK's design choice to use LEI as the preferred identifier in domestic UK payments is explained by LEIs offering the granularity to identify organisations *and* specific functions (beyond the FI branch distinguishable in a BIC) within them.

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?

The Bank of England has already announced that it will mandate the use of LEIs for CHAPS payments between Financial Institutions. Pay.UK's design of standards and rules for domestic UK interbank retail payments is already committed to using the LEI to identify directly connected customers to the new central infrastructure (for UK interbank retail payments) so any change to that would come at a cost and require additional time and effort to remediate.

Cost will be a factor for those financial institutions which do not currently have either a BIC or LEI. We would not want to sustain a contradiction between the UK and cross-border payment environment that might require FIs to procure and maintain both if they cannot achieve benefits between using one over the other.

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.

Yes, from a UK Finance member perspective, a standardised approach with clear usage guidelines would help enhance transparency, speed and overall, the processing efficiency of cross-border payments. However, it is important to have realistic expectations. Achieving such standardised and structured data will take time and require education work based on clear guidelines. The more data that can be structured, the better as it will help with the screening, routing and STP of payments.

Yes, as previously mentioned, for Pay.UK has designed for use of the LEI for directly connected customers in our new UK interbank retail payments platform. We have also considered CBPR+ alignment regarding identifiers and support moves towards structured data e.g. name, postal/address information. We believe that a level of transparency will prevent friction in processing e.g. by improving screening.

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?

LEIs are not currently scaling globally and there is some risk that mandating them for cross-border payments is unrealistic.

Pay.UK will, for domestic UK interbank retail payments, mandate LEIs for any directly connected customers to its systems and these will be communicated in the rules and standards, in alignment with the Bank of England's policy on enhanced data in CHAPS payment messages.

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.

Using mandatory and structured data e.g. name, postal / address information can add to processing efficiencies.

However, with plausible digitalIDs being explored in some jurisdictions, these new identifiers could also be included for exploration to identify all persons involved in a cross-border payment from national digital ID schemes or databases.

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.

In principle, yes, however it seems difficult to achieve in practice. UK Finance members are already seeing some misuse of structured data in ISO, albeit low volumes. Being able to input structured address details fully is a challenge and the standard does not allow all address combinations to be structured.

Therefore, changes may be required to allow some address details to be unstructured. Based on this observation, the CPMI could consider limiting the usage of structured fields for key elements (town name, country, postal code where applicable) while maintaining the option of using unstructured data for remaining elements.

For Pay.UK, we plan to move to structured data to provide machine readability and learning at the earliest opportunity.

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?
As long as this is a jumping off point for a smarter use of the available data overall and considers changes put forward by the PMPG (Payments Market Practice Group), whether it be a "hybrid" or interim approach or allows for a review of 'best use' or 'best practice' in the future for all impacted stakeholders.

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?
Any ability for organisations to provide as much structured and machine-readable data is advocated by us.

However, one has to consider its implementation including but not limited to (local) data privacy legislation and regulations, intellectual property ownership and whether there are alternative solutions today.

Other considerations are:

- Which organisations are able to publish (create) and ingest the quantities of new data?
- What is the cost to create, maintain and control all this data?
- Is its applicability effective enough to achieve better outcomes?
- Would increased volumes of data equate to degradation of processing times and put at risk any obligations as set out in rules or rulebooks?

As long as these factors are considered, that it does not add additional responsibilities or liabilities for organisations in the payment value chain and is equitable in terms of benefits to all, then we will continue to champion for and support these changes.

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?
We would express concern for the inclusion of some types or forms of data e.g. embedded hyperlinks, without some assurances over controls, screening accountability and unintended consequences.

There is another consideration with existing UK regulation (The Payment Services Regulations 2017, regulation 54) for PSPs who are obliged to provide their payees with “any information transferred with the payment transaction”.

Hence, there needs to be a high degree of control over what’s allowable and can be included in the messages *at source*, to avoid misuse or end user abuse and we are sensitive to end users’ concerns and how other market infrastructures have implemented controls or accountabilities to their users.

Good use of rulebooks and effective monitoring could be a means to identify (not prevent) submission of spurious or upsetting data content.

An additional aspect regarding the risks of and responsibilities for additional screening or scrutiny might lead to processing or performance degradations.

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?
See also the response to Question 1.

There is a tangible “log jam” or contention with multiple industry and global initiatives between now and the end of 2025. Appreciating that most are ‘target dates’ and could be subject to change (e.g. extension) we are sensitive that proposals to introduce more obligatory change is likely to require additional investment for us, our customers and stakeholders and might jeopardise already ‘planned for events’ exacerbating the risks of not meeting existing target dates and objectives.

In its design for domestic UK interbank retail payments, Pay.UK has sought to avert contention by aligning with initiatives like, but not restricted to CBPR+, and is working with the Bank of England to be as aligned as possible with their policy for CHAPS enhanced data use and the schemas and Implementation Guides in ISO 20022 messages for interbank retail and wholesale payments.

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?
See also the response to Question 1.

A coordinated, well-managed and mandated initiative for at least PSPs is likely to achieve the G20’s targets.

However, there will need to be considerable and timely transparency between market infrastructures to share and evidence the effectiveness, or not, of the requirements, with clear remediation or change recommendations as a result.