

ISO 20022

Shaping the future of payments

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What Is It?

Major market infrastructures such as SWIFT, the Eurosystem, EBA, The Clearing House, the Federal Reserve and the Bank of England have communicated plans to migrate to ISO 20022 between 2022 and 2025.

ISO 20022 is a standard (published by the International Standards Organization (ISO)) for the electronic exchange of data covering foreign exchange (FX), payment and securities, among others.

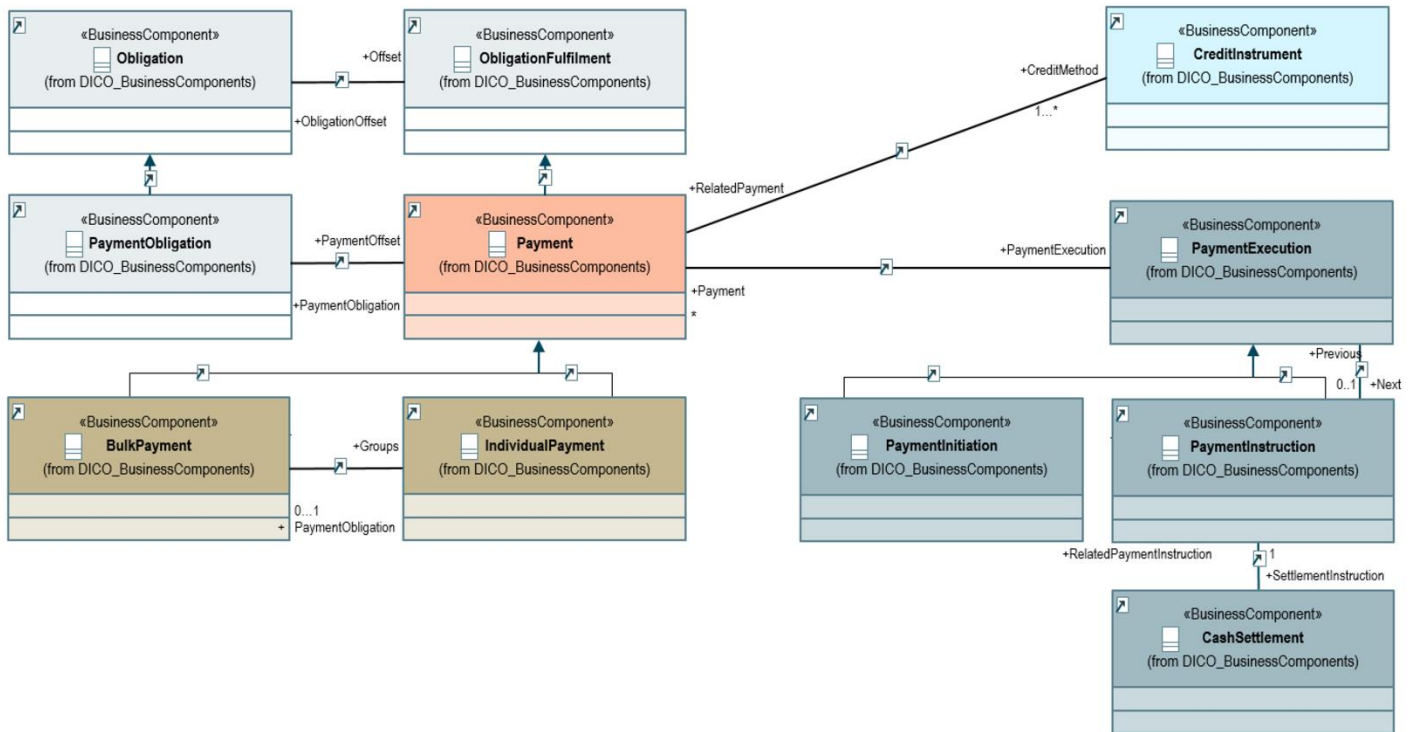
The need for the standard arose in the early 2000s with the widespread growth of Internet Protocol (IP) networking, the adoption of XML as the de facto open technical standard for electronic communications and the multitude of uncoordinated XML-based standardization initiatives, each with their own XML dialect.

History

Since its introduction in 2005, the ISO 20022 standard has been adopted in various securities and payments market infrastructures. The implementation of SEPA in Europe in 2008 has been the most widely visible application of the standard in the payments space today.

The ISO 20022 standard provides a common modelling methodology to capture, analyze and describe business processes and their information needs. The business model includes standardized business concepts and business components that are typically business activities and processes, roles and actors, as well as the information required to perform the activity or process.

The following example depicts certain business components related to the payment business component and their logical connections.



- **Payment Obligation** is the result of many transactions (e.g., settlement of an FX trade, charges to be paid, payment of securities) and is fulfilled by a payment.
- **Payment** may be an individual payment or a group of payments (aka bulk payment).
- Each **payment** must be executed first through a payment initiation process (customer to bank) and possibly through one or more payment instruction.

Equally important parts of the business model are the message concepts, components and elements, as well as a comprehensive set of standardized data types.

The Industry’s Infrastructural Change

Over the coming years, the financial services industry will experience major infrastructural change on a global level, especially in regards to payments. Leading market infrastructures are executing on major platform modernization strategies to create the basis for banks and other actors of the financial eco-system to provide better digital solutions, meet the demand for increased automation, efficiencies and cost reduction, refine regulatory compliance capabilities and deliver end-to-end execution cycles that are in line with the real-time service expectations of consumers and businesses alike.

The most pervasive and impactful changes are driven by a broad migration of payments and cash management related messaging to the ISO 2022 standard. However, the trend also emerges in other areas of financial services, especially in Europe. The shareholder disclosure process, put forward by the Shareholder Rights Directive II, introduces new messages to be developed exclusively in the ISO 2022 standard. Different collateral management and Corporate Actions harmonization initiatives driven by the Eurosystem are expected to achieve some of the harmonization goals through a similar approach.

The migration of payment infrastructures to the ISO 2022 standard over the next three years will have material impact on all financial institutions globally, beginning as early as November 2022, and will require extensive planning and preparation that extend well beyond purely technical changes.

Timing

Major market infrastructure providers such as SWIFT, the Eurosystem, EBA, The Clearing House (TCH), the Federal Reserve and the Bank of England have communicated plans to migrate to ISO 20022 between 2022 and 2025.

The migration of the industry begins in November 2022 with the migration of SWIFT, Target2 and Euro1 – Bank of England has shifted its migration from June 2022 to April 2023 and will implement the enriched ISO 20022. Hong Kong CHATS and TCH's CHIPS migrations are scheduled for October and November 2023 respectively while the Federal Reserve Bank has set the cut-over date for Fedwire to March of 2025.

While SWIFT's original timeline called for a mandate that all members to be able to receive ISO 20022 message (MX messages) in November 2021, a decision by the SWIFT Board in the spring of this year pushed this date back to 2022. The ECB confirmed the same amendment to their implementation a few months following the announcement from SWIFT.

The staggered transition plans of these major market infrastructures create a multi-year coexistence phase that extends until 2025. Interoperability will be challenged, and data will not necessarily travel seamlessly with the payment.

Benefits of ISO 20022

By providing comprehensive and standardized descriptions of all business processes surrounding payments, and clear and structured messaging capabilities supporting those processes, the implementation of ISO standards across payment systems in all major currencies creates the foundation for interoperability, straight-through processing of payments and related business activities or exceptions.

As a result, financial institutions will be able to provide clients with faster service, a better digital service experience and richer information. Banks will have the opportunity to build on this foundation to offer new capabilities to clients, and clients benefit from more efficient payment and cash management services that can be more easily embedded into their own business processes and services.

Additionally, by providing for richer and more structured payment data, the implementation of the ISO 20022 standard also supports the continued efforts of the financial industry to combat money laundering and terrorist financing more effectively and efficiently.

Key Impacts to Consider

The transition of the industry to ISO 20022 is expected to be one of the most complex changes affecting the payment industry in years.

Because these changes impact more than core payment processes alone, the migration will require significant technology and data upgrades across the end-to-end ecosystem:

- Payments and messaging systems and interfaces must be adjusted
- Compliance systems, customer static data repositories, online banking applications, reconciliation systems, investigations and client service platforms must be reviewed and upgraded to handle new and larger messages
- Client static data files must be upgraded and cleaned to support the structured data requirements

Major impacts of the ISO standard's implementation are related to richer and more structured data requirements in ISO messages versus SWIFT MT messages or other legacy formats. Banks receiving messages in ISO format must consider their role in the payment chain and evaluate any regulatory obligations relative to supplemental data in the ISO message:

- Beneficiary banks may need to consider sanctions and AML obligations
- Banks acting as intermediaries must assess the regulatory implications of potentially truncating data passed to other banks in the settlement chain

Besides technical and regulatory challenges, banks will need to evaluate the availability of expertise in their own organizations and with the vendors. The industry will likely face a significant demand for technical and business expertise, which could be a material challenge for the change management initiatives. However, financial institutions should also not underestimate the need to train back-office and front-office staff for the ongoing course of business during and after the co-existence phase.

Finally, the ISO Implementation impacts end clients. By the end of the coexistence phase, the industry is targeting fully structured messages and clients will be required to send structured beneficiary information with their payment instructions. This requirement could result in technical and data maintenance impacts as well.

BNY Mellon's ISO 20022 Preparations

As a leading provider of USD Clearing services as well as EUR, GBP and cross-border FX payments, BNY Mellon has engaged in a global preparedness effort that spans multiple lines of business and geographies, and engages experts across multiple functions in the businesses, operations and technology areas.

Our objective is to be able to support all payment message formats that are available in the various market infrastructures we employ at any given time, most notably SWIFT, Target 2, CHIPS, Fedwire and CHAPS. We look to develop solutions that bridge the coexistence phase and to provide clients with as much flexibility as possible to manage the transition at their own pace. Simultaneously, we need to be mindful that the integrity of payment information and regulatory compliance are sustained throughout.

Currently, we do not anticipate mandating clients to send ISO 20022 payment messages beginning in November 2022 and expect to send MX payment messages where mandated by market infrastructure, compliance requirements, or when desired by a client.

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