

ISO 20022 Migration for the Australian Payments System – Responses and Options Paper

A consultation paper issued by the Reserve Bank of Australia and
the Australian Payments Council

September 2019



Australian
Payments Council

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1. Introduction

1.1 Background

In April 2019, the Reserve Bank of Australia (RBA) and the Australian Payments Council (APC) issued the first in a series of three consultation papers with the objective of assisting the industry reach consensus regarding the adoption of International Organization for Standardization (ISO) 20022 messaging standards in the Australian payments system. The first in the series, the Issues Paper, set out a number of key strategic issues and posed related questions to seek industry feedback. This second, the Responses and Options Paper, provides a summary of the responses received through the initial consultation and canvasses some potential implementation options for industry participants to consider. A second round of feedback is sought in response to the potential options outlined in this paper. The third, the Conclusions Paper, is expected to be published in the first half of 2020, and will present final conclusions from the consultation, including the agreed scope, governance, migration strategy, timetable and implementation approach.

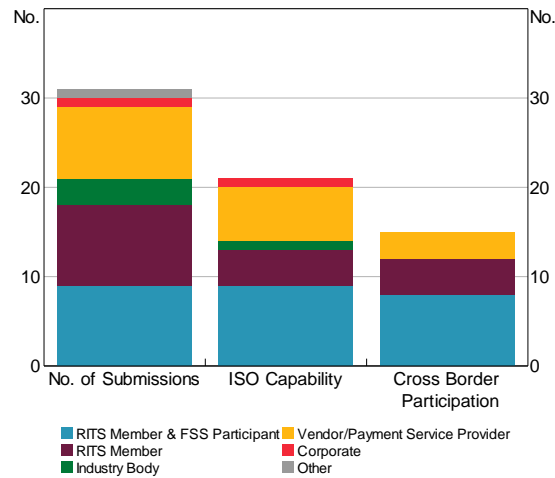
The rest of this section provides an overview of the submissions received in response to the Issues Paper; subsequent sections provide more detail on views provided in the consultation on specific topics. Section 2 discusses the scope of the project, mainly focusing on the High Value Clearing System (HVCS). Section 3 covers how messages used in the HVCS could potentially be enhanced using the ISO 20022 format. Section 4 discusses the project framework in relation to migration approach. Section 5 discusses project governance options. Section 6 outlines the next steps and how to respond to this paper.

1.2 Summary of submissions

A total of 31 responses were received following the publication of the Issues Paper.¹ Respondents represented a diverse range of payments system users, comprising about a third that are Reserve Bank Information and Transfer System (RITS) Members directly using the New Payments Platform (NPP) and RITS Fast Settlement Service (FSS), another third that are RITS Members not directly using NPP/FSS, and a little over a third made up of payments industry bodies, corporates, vendors and payment service providers (Figure 1). Around half of the respondents indicated they offered correspondent banking services, meaning they are also impacted by the cross-border ISO 20022 migration being managed by the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

1 Non-confidential submissions from respondents are available at <https://www.rba.gov.au/payments-and-infrastructure/submissions/migration-for-the-australian-payments-system/>. Some submissions were provided confidentially and have not been published. The RBA also held bilateral meetings with many respondents to discuss their submissions.

Figure 1: Respondents



Source: RBA

Respondents were unanimous in acknowledging the need for certain parts of the Australian payments system to migrate to ISO 20022 messaging and around 70 per cent of respondents were confident that the migration could be completed by 2024.

Several key themes emerged through the responses:

- Participants are looking for opportunities to consolidate the number of payments clearing systems currently being supported by the industry.
- There is little or no support for the migration of cheque, direct entry (DE) or card clearings to ISO 20022. The general industry view is that cheques will soon be retired and NPP will most likely replace DE in the longer term.
- Most respondents support maintaining a dedicated high value payments system, although some suggested that NPP infrastructure could potentially be used for the HVCS.
- There is broad support for including all of the enhanced content items identified in the Issues Paper.
- Standardisation of messages across similar systems is desired where possible, with strong support (of those responses that addressed the issue) for adopting the international High Value Payments Plus (HVPS+) and Cross-Border Payments and Reporting Plus (CBPR+) guidelines to the fullest extent possible.
- There is a preference for incorporating a coexistence phase rather than a 'big bang' migration.
- The migration should initially be on a like-for-like basis, followed by the compulsory adoption of enhanced ISO 20022 content.
- Prioritisation against other initiatives is the most significant challenge institutions are likely to face when planning for this migration, both in terms of likelihood and consequence.
- The project governance model adopted for the NPP project was widely cited as a successful approach, with broad consensus that the project be industry led.

2. Project Scope

2.1 Summary of responses

2.1.1 HVCS

Most respondents support maintaining a dedicated HVCS for the foreseeable future and upgrading it to use ISO 20022 messaging rather than trying to move high value payments onto the NPP platform. There was a general recognition of the issues raised in the Issues Paper and the challenges these presented.

Nevertheless, a few respondents felt there was merit in further exploring whether it would be of net benefit to the industry to move HVCS payments into the NPP. These respondents saw some potential advantages in consolidating their internal payments systems and some possible efficiency benefits in maintaining and developing a single industry infrastructure rather than two. They also felt that resiliency concerns could be addressed by design improvements and that the suggested consolidation would help to concentrate ongoing investments.

Box A considers the implications of the HVCS being migrated to using NPP infrastructure, using the APC's four desirable characteristics of an effective payment system²: resilience, efficiency, accessibility and adaptability. This assessment suggests that there is a strong case for retaining a standalone HVCS.

Box A: Consolidation of HVCS into the NPP

This analysis assumes that HVCS payments would continue to settle in RITS using the liquidity management processes and cash market access arrangements currently available to Exchange Settlement Account (ESA) holders. The RBA's existing ESA Policy would continue to apply.³ Existing HVCS settlement hours would be maintained to align with cash market requirements.

Resilience: If the industry expectation that DE payments migrate to the NPP over time is realised, then the additional migration of HVCS payments to the NPP would effectively consolidate the three existing credit transfer systems into using a single platform. This would reduce the options available to participants for responding to a contingency event (e.g. redirecting some payments from one system to the other) potentially reducing overall payments system resilience. There would also be an increased likelihood of 'systemically important' HVCS payments being impacted by a participant issue,

2 See 'Australian Payments Council 2019 Consultation'. Available at https://australianpaymentscouncil.com.au/wp-content/uploads/2019/01/Australian_Payments_Council_2019_Consultation.pdf

3 The RBA's ESA Policy (see <https://www.rba.gov.au/payments-and-infrastructure/esa/>) requires ESA holders to settle directly across their own ESA unless their aggregate wholesale RITS RTGS transactions are less than 0.25 per cent of the total value of wholesale RITS RTGS transactions.

as the same infrastructure is also being used for higher volume retail payments.

The separation of retail and wholesale payments systems reduces operational risk and the potential to affect financial stability. It is consistent with the approach adopted by other major market infrastructures around the world.

Efficiency: Some respondents suggested that making HVCS payments using the NPP platform has the potential to improve efficiency by making greater use of NPP's connectivity and infrastructure arrangements, leveraging associated back office system upgrade processes, and reusing the existing NPP ISO 20022 message suite. However, these benefits are limited to HVCS participants already connected to the NPP; existing HVCS participants would incur additional costs in standing up and maintaining the systems required to join and connect to the NPP. Systems and processes for treasury management of ESA liquidity would continue to be required by participants as now. Separate HVCS and NPP rule books would still need to be maintained and administered reflecting the very distinct nature of the two systems and lessening the case that HVCS payments would be more efficient using the NPP platform. There would also be limited scope for internal systems to be decommissioned given that most HVCS members will still need to retain their SWIFT infrastructure to access the global SWIFT network. Messaging costs may fall for some participants that are not currently on fixed fee arrangements with SWIFT, while for others, reduced volumes may bring them below the fixed fee cap and result in an increase in average message costs. The process for determining settlement fees would continue largely unchanged, as the RBA would continue to recover the cost of operating RITS and FSS.

The RBA and APC believe there is scope to achieve back office processing efficiencies for high value payments by adopting the suite of ISO 20022 investigation, dispute resolution and reconciliation messages (as used by NPP) as part of a HVCS ISO 20022 migration.

Accessibility: The NPP operates on a dedicated domestic network, and HVCS operates on the global SWIFT network. The membership base of NPP is quite different to that of the HVCS: currently 32 of the existing 48 HVCS members do not have access to the NPP. More than half of HVCS members are overseas-based institutions, many of whom operate global infrastructure offshore and a move to using the domestic NPP network would have potentially significant implications for these institutions. Under the existing RBA tiering arrangements set out in the ESA Policy, at least 17 HVCS members have large enough payment value flows to require them to join NPP as an NPP Full Participant or an NPP Settlement Participant. The costs of building new NPP capable systems for these organisations is likely to be sizeable.

Adaptability: The existing NPP infrastructure is not a perfect substitute for the HVCS given its distinct characteristics and service offerings. Some of the differences between NPP and HVCS include: hours of operation; payment volumes/values; access/participation requirements; procedures/rules; and settlement processing arrangements. There may be implications for the NPP's design to ensure it can accommodate all of the different service arrangements specific to HVCS. In comparison to the HVCS, there is likely to be a need for NPP to be more adaptable and innovative over time, in order for it to respond to changing retail payments system needs. The inclusion of HVCS on the NPP platform may result in additional complexity and could impede this innovation. There may also need to be a reassessment of the underlying technology used for the NPP as a result of the increased level of direct participation required. SWIFT advises that current NPP design and systems have been sized for 50 directly connected participants.

2.1.2 Other payments system messaging

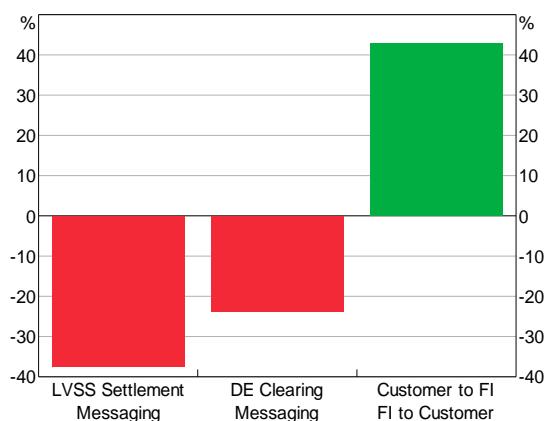
There was little support for migrating DE payments to ISO 20022, with many respondents recognising that the cost and effort of migrating legacy DE arrangements to ISO 20022 messaging would be large and the migration might not be worthwhile. Many respondents noted that they expect DE payments to move to the NPP in the longer term and some noted that a number of DE credit payments are already being made through the NPP. The main impediments cited that currently prevent DE payments migrating are that NPP account reach is currently less than DE and that there is currently not a debit product available in the NPP. A small number of respondents felt that there were significant benefits associated with the ability to complete retail payments in a batch. NPP Australia (NPPA) and its Participants are currently considering a range of initiatives that could support the ingestion of batch payments into the NPP.⁴

Similarly, respondents did not express any support for the migration of electronic cheque clearings to ISO 20022, noting the rapid decline in cheque use.⁵

There was no support for migrating BPAY and card clearing messages to ISO 20022. There was also no industry support for migrating the settlement of these payments via RITS Low Value Settlement Service (LVSS) messaging to ISO 20022.

There was general support from respondents for the industry to develop message usage guidelines for 'customer to Financial Institution (FI) and FI to customer' messaging (Figure 2). However, a number of responses indicated that these standards should not be mandated. They felt that the key benefit of developing these standards was to improve the overall end-to-end experience for customers and the adoption of the standard should be at the discretion of each financial institution and be driven by customer requirements and competitive pressures.

Figure 2: Other Messages to Migrate



* Net support for migrating other message streams.

** 'Later Phase' and 'No View' responses are not represented.

Source: RBA

Many respondents, particularly those who participate in the NPP, felt that significant back office processing efficiencies could be achieved by adopting a range of investigation, dispute resolution, and

4 This includes a payment initiation Application Programming Interface (API) with a batch booking indicator as well as 'debulk'ers which could intelligently convert bulk DE files into individual NPP payments.

5 A number of responses recommended that an end date for cheque acceptance should be agreed and publicly announced.

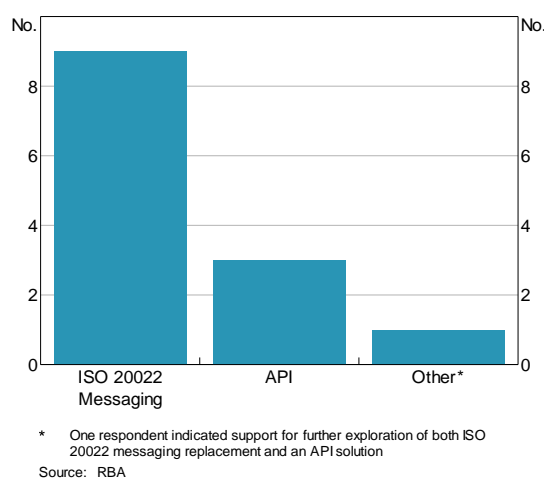
reconciliation messages (which are already defined for NPP in an ISO 20022 format) for high value payments.

Some respondents also expressed a desire to clarify and, if possible, standardise reporting requirements and formats with external parties, such as regulatory reporting to Australian Transaction Reports and Analysis Centre (AUSTRAC) under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act). Respondents suggested that relevant regulatory parties, such as AUSTRAC, should be involved in developing these requirements, including any transition requirements.⁶ Respondents also noted the need for the migration project to be cognisant of Recommendation 16 of the Financial Action Task Force (FATF) Recommendations in relation to wire transfers for domestically processed payments that have originated from overseas.⁷

The majority of respondents supported the continued use of a partial Y-Copy service, where only a subset of message content is received by the RBA for settlement, for the HVCS. Concerns were expressed in relation to the use of the V-Shape model, particularly in relation to the privacy and confidentiality of customer information. SWIFT is finalising the dates when the partial Y-Copy solution for ISO 20022 will be available. Currently it is targeting a minimum of six months for industry testing (from Q1 2021) allowing for a planned go-live in November 2021.

The majority of respondents supported replacing the existing SWIFT Message Type (MT) messages used for the RBA's Automated Information Facility (AIF) with ISO 20022 messages (Figure 3).

Figure 3: AIF Replacement



2.2 Proposed project scope

Based on responses from the industry, on balance, there appears to be sufficient support to define the scope of the ISO 20022 industry migration project to include:

- the HVCS, which will continue to run as a separate clearing system using the SWIFT InterAct service with settlement occurring in RITS
- the development and introduction of ISO 20022 reporting, investigation, and reconciliation messages for the HVCS, similar to those used for NPP

6 The RBA has consulted with AUSTRAC, which is supportive of the broader initiative and welcomes the opportunity to work with the industry.

7 See <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

- the use of agreed enhanced content (discussed further in Section 3)
- the development of appropriate ISO 20022 message usage guidelines for customer to FI and FI to customer messaging (with no compulsion for use)
- alignment with compliance obligations with regard to FATF and international funds transfer instruction (IFTI) requirements. Additionally, transition arrangements for AUSTRAC reporting during the migration period will need to be considered.

In parallel to the industry ISO 20022 project, the RBA will engage with each of the existing RITS Batch Administrators to plan for migration of batch settlement messaging to ISO 20022.⁸ Clearing House Electronic Sub-register System (CHES) settlement messages are already in the process of being migrated as part of the broader ASX CHES Replacement project.

It is envisaged that ASX will separately migrate the in-scope SWIFT MT messaging used by its Austraclear system to the equivalent ISO 20022 messaging. This is expected to align to the SWIFT cross-border ISO 20022 migration timelines.

Migration of the RITS AIF service from MT to ISO 20022 messaging will be managed independently from the industry migration project. The RBA will look to ensure that the impact to AIF participants who commence using ISO 20022 in the HVCS is considered (discussed further in Section 4).

Consultation Questions

1. Does your organisation agree with the proposed project scope, as set out in Section 2.2? If no, please explain your view.
2. Does your organisation support the introduction of an HVCS suite of investigation, dispute resolution, and reconciliation messages? Should use of these messages be mandatory? Please explain your view.

⁸ This will exclude property settlement.

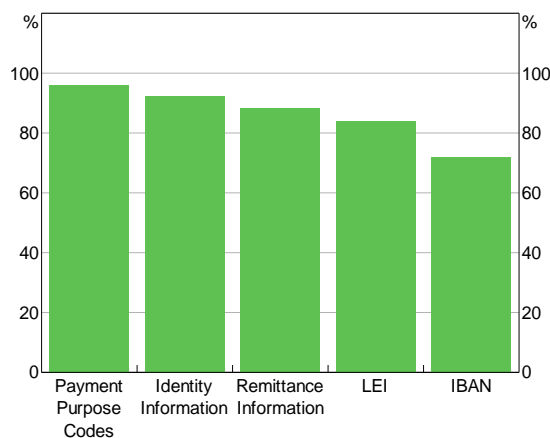
3. Message Design Enhancements

3.1 Summary of responses

3.1.1 Enhanced content

Respondents expressed strong support for including enhanced content in domestic ISO 20022 messages, in particular, payment purpose codes and identity information, along with increasing the remittance capacity of high value messages and using the Legal Entity Identifier (LEI) (Figure 4). Key reasons provided for supporting the implementation of enhanced content included improved risk management (particularly in terms of Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) compliance and sanctions screening) and the operational benefits attained through increased straight through processing from the use of structured data. Although the inclusion of International Bank Account Numbers (IBANs) received the least support, it was still supported by around 70 per cent of respondents. Responses suggested that, even if not mandated, it would be important that payment messages be able to include IBANs to enable interoperability with other jurisdictions using IBANs for account identification.

Figure 4: Support for Enhanced Content



Source: RBA

A related issue in defining ISO 20022 message enhancements is the extent to which particular fields in payment messages are able to, or required to, be populated using a specified data structure. This is discussed further in Box B.

Box B: Structured data

As part of defining the ISO 20022 message standards, the industry will need to determine the extent to which structured or unstructured data is to be used within each message. Structured data means that data is logically populated in different elements in a pre-defined way to provide clarity and consistency in the way the content is carried (and processed). Unstructured data fields allow for the unrestricted entry of data within the boundaries of ISO 20022 data types. Figure 5 provides examples of unstructured and structured data.

Data can be structured in two ways:

- a) By defining how a specific ‘free text’ field is to be structured (see example of *Transaction Identification* field); and
- b) By requiring the use of specific fields (see example of *Postal* field).

There appears to be a strong case for fields to be structured (where possible) as there are some clear benefits that include: consistent formatting of data elements; minimisation of data misinterpretation; simplified data monitoring; improved reporting; and improved effectiveness of compliance screening. The use of structured data is consistent with global trends and CBPR+ guidelines and will be mandatory in some overseas payments jurisdictions.⁹ The fields where the use of structured data is most suitable are the address, party identification, and remittance fields but the domestic implementation may choose to take a broader approach.

Figure 5: Unstructured vs Structured Data

	Unstructured Data	Structured Data
Example: <i>Transaction Identification</i> field	<p><TxId>KDSF83nms234kmsmmklf5512312358745t</TxId></p> <p>■ Max35Text</p>	<p><TxId>HVCSEBANKABC24072019SWIFTPDSEtrade12</TxId></p> <ul style="list-style-type: none"> ■ 1 – 4: Name of clearing system ■ 5 – 11: Bank Identification ■ 12-19: Message Creation Date ■ 20-35: Back Office number/identification
Example: <i>Postal</i> field	<p><AdrLine>65MartinPlaceSydney2000Australia</AdrLine></p> <p>■ Max70Text</p>	<p><StrtNm>Martin Place</StrtNm></p> <p><BldgNb>65</BldgNb></p> <p><PstCd>2000</PstCd></p> <p><TwnNm>Sydney</TwnNm></p> <p><Ctry>Australia</Ctry></p> <ul style="list-style-type: none"> ■ Street Name ■ Building Number ■ Post Code ■ Town Name ■ Country

Consultation Questions

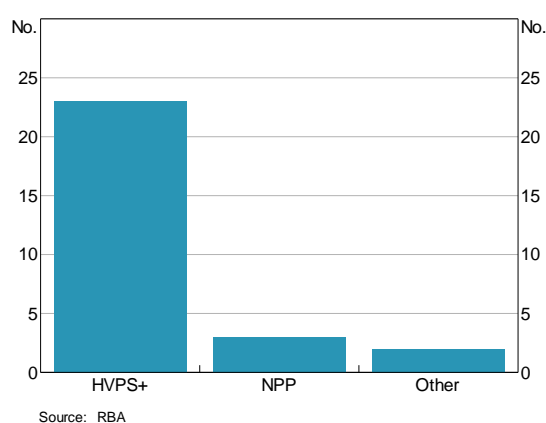
3. Does your organisation have any views regarding the use of structured data in payments messaging?

⁹ For example, as part of SWIFT’s cross border ISO 20022 migration, structured agent identification data will be mandatory from the start of the coexistence phase if the originating cross-border message is in ISO 20022.

3.1.2 Message harmonisation

Most respondents recognised the advantages that might accrue from aligning, to the extent possible, domestic ISO 20022 message usage guidelines across different clearing systems as well as with the message usage guidelines being used overseas. There was general agreement that the starting point for defining domestic credit message standards should be the internationally agreed HVPS+ guidelines for domestic real-time gross settlement (RTGS) systems (Figure 6). It was noted that the Australian domestic usage guidelines may need to deviate from HVPS+ but that any deviation should be kept to a minimum. Some respondents also noted the CBPR+ guidelines being developed for cross-border payments and indicated a desire to harmonise with those guidelines as well.

Figure 6: Message Guideline Base



Some respondents expressed support for the development of a common domestic ISO 20022 message set across credit transfer clearing systems such as the HVCS and NPP. They felt this would allow for greater harmonisation, improved interoperability and choice, and would deliver operational resiliency benefits. Achievement of full interoperability of retail and high value payments systems via a common domestic credit message would not be without challenges. It may require NPPA's ISO 20022 domestic messaging and usage guidelines to be more closely aligned with global standards such as HVPS+ and CBPR+. Investigation would be required to determine the scope of technological build and implementation costs to upgrade participant back office systems and to develop industry agreed interoperability arrangements.

It was also noted that some major jurisdictions (including the United States, the Eurozone, and the United Kingdom) have recently agreed to adopt the 2019 version of the ISO 20022 standards for their upcoming implementations and that it would make sense if Australia adopted the same approach as part of its ISO 20022 migration.¹⁰ These jurisdictions have also indicated their intention to upgrade to the latest ISO 20022 version by 2025 and to subsequently perform annual upgrades in November each year.¹¹

As part of the migration project it would be worthwhile for the Australian payments community to consider and agree how the industry will manage ISO 20022 versions within and across payments systems in Australia on an ongoing basis. A new version of the ISO 20022 standard is generally released annually and this can be adopted at the discretion of individual payments systems. To the

¹⁰ These jurisdictions are using the Standards Release 2019 HVPS+ guidelines as a base for their implementations.

¹¹ This practice is in line with SWIFT's Harmonisation Charter: <https://www.swift.com/standards/iso-20022-harmonisation-programme>

extent version management protocols can be agreed in advance, this would make investment planning for system upgrades more predictable and harmonisation with domestic and international systems more achievable.

3.2 Proposed message design enhancements

Based on the responses to the Issues Paper there appears to be general agreement that the ISO 20022 message usage guidelines developed for the Australian HVCS migration should:

- incorporate the mandatory use of payment purpose codes, enhanced identity information and additional remittance information
- allow for the use of LEIs and IBANs
- align message usage guidelines with HVPS+ and CBPR+ guidelines where possible
- use structured data in accordance with CBPR+ guidelines
- adopt the 2019 version of the ISO 20022 standards for the duration of the coexistence phase of the domestic migration project
- include arrangements for ongoing management of ISO 20022 versions to provide certainty and align with domestic and international usage.

A move to develop a common set of domestic messages using ISO 20022 for credit transfer systems in Australia is likely to be a long-term objective. Based on the responses received, most payments industry participants are already challenged with competing internal projects and harmonising to a common message standard in the short term would be an unnecessary expansion of scope that would put the proposed timeline at risk.

Consultation Questions

4. Does your organisation support the proposed message design enhancements, as set out in Section 3.2? Please explain your view.

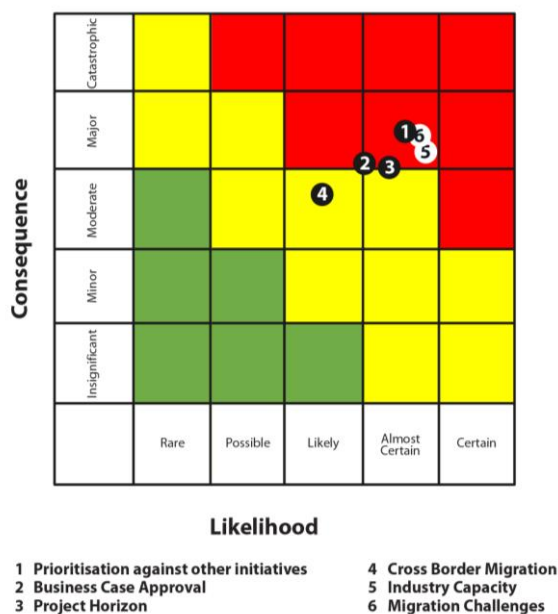
4. Migration Approach

4.1 Summary of responses

4.1.1 Risks and challenges

Respondents identified the need to prioritise the domestic migration project against other initiatives as the most significant of the risks identified in the Issues Paper by likelihood and consequence (risks 1–4, Figure 7). Other issues identified by respondents include: industry capacity; migration challenges (risks 5 and 6, Figure 7); the capacity for vendors to keep up with an aggressive whole-of-industry domestic migration timeline; potential for compliance and screening failures during the coexistence phase; and technical challenges in supporting multiple formats during the coexistence phase. Some responses identified risks arising from a lack of clear regulatory and reporting expectations, particularly in respect of AML/CTF compliance and sanctions screening, during the migration project.

Figure 7: Risks and Challenges



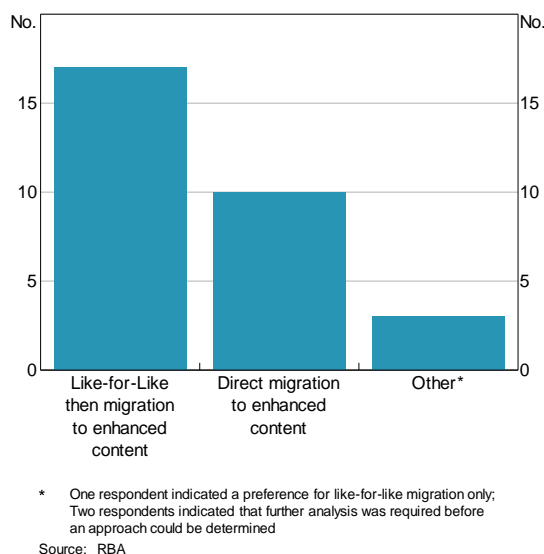
4.1.2 Migration strategy, timing and coexistence

Most respondents preferred a domestic coexistence phase to support the transition from existing MT messages to ISO 20022 messages. Many in the industry agreed with the view that the domestic coexistence phase should be aligned with the beginning of SWIFT’s coexistence phase for cross-border payments migration. Some options to manage industry coexistence are discussed in Box C.

Around 55 per cent of respondents support a like-for-like migration followed by adoption of enhanced message content (Figure 8). Support for an initial like-for-like phase was influenced by a general desire to reduce overall project risk by allowing for a phased approach to project delivery. In contrast, other

respondents indicated a desire to complete their build as part of a single project. These participants are in favour of a delivery model that provides flexibility by allowing a like-for-like migration with an option to adopt enhanced content. This would allow them to populate messages immediately after implementing their internal build but would not impose any requirements on recipients to process the enhanced content. The requirement to populate and absorb enhanced content would be made mandatory later in the coexistence phase, meaning that participants who choose to migrate later in the coexistence phase would need to migrate straight to enhanced content, without any like-for-like period. These respondents stressed this will allow a participant to commence using enhanced content early if it is ready to do so.

Figure 8: Migration Approach



Some respondents identified potential impediments to migrating domestic payments messaging by the end of 2024, ahead of SWIFT’s cut-off for MT cross-border flows. The key theme coming from these responses was the challenge of ensuring internal project investment prioritisation of this initiative against other competing initiatives, e.g. ASX-led CHES migration and ongoing NPP initiatives, as well as payments-related developments in other jurisdictions. Some respondents have a preference to undertake system builds for both domestic and cross-border migrations simultaneously, while others noted that staging the domestic migration behind the SWIFT cross-border migration could reduce their project delivery risk.

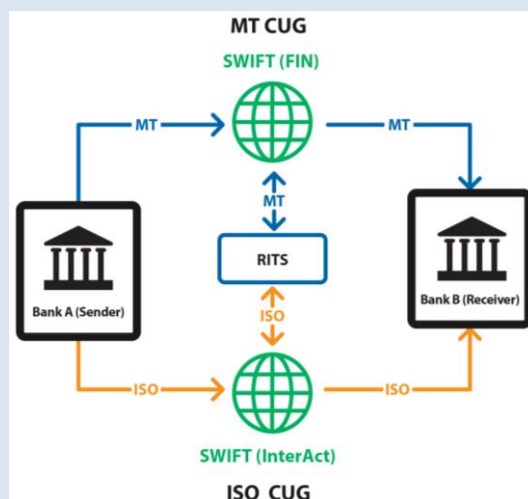
Box C: Options to manage domestic message coexistence

The industry indicated a strong preference for including a coexistence phase in the project approach. This box presents three options for how a domestic coexistence phase might work (Figures 9, 10, and 11).

Option 1: Coexistence of separate MT and ISO 20022 Closed User Groups (CUGs)

Under the first option, two separate CUGs could be managed. These are an 'MT' CUG using the SWIFT FIN service (as now), and an 'ISO' CUG using the SWIFT InterAct service. Participants would be added to the 'ISO' CUG when they are able to both send and receive ISO 20022 messages. Those in the ISO CUG would agree bilaterally to exchange ISO 20022 messages over InterAct with others that have already migrated, and would continue to exchange MT messages over FIN with those not yet migrated. The downside of this approach is that participants are required to continue sending and receiving MT messages until the last participant has migrated. This option removes the need to translate domestic messages between MT and ISO 20022 as MT flows will continue to be part of a separate CUG.

Figure 9: Option 1



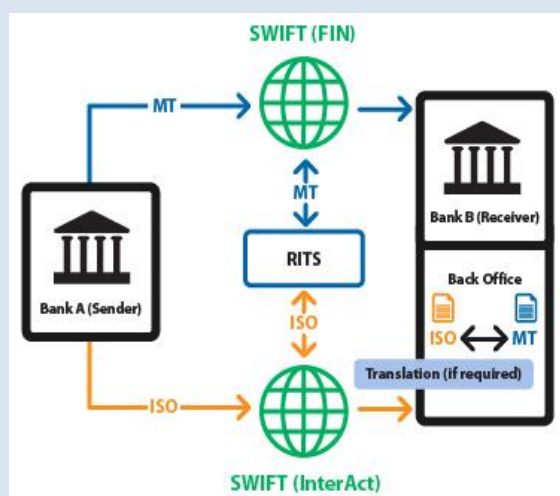
Option 2: Coexistence of MT and ISO 20022 CUGs and mandatory to receive ISO 20022

A second option could mandate that all participants are able to receive ISO 20022 messages at the beginning of the coexistence phase, which is the option being adopted by SWIFT for the cross-border migration. Under this option, participants that have not yet updated their back office systems to receive and process ISO 20022 messages would need to use a translation service to translate inbound ISO 20022 messages for processing. This would result in some truncation of ISO 20022 message content, with the onus on the receiving institution to manage compliance risks, including passing on the full message content (i.e. including truncated data) where the instruction was received in the ISO 20022 format. This option allows sending institutions to migrate to sending ISO 20022 messages at any time within the coexistence phase that meets their project preferences.

In this option, sending participants that have not yet migrated could continue to send outgoing MT messages through FIN and maintain support for MT/FIN traffic until the end of the coexistence phase. This would require receiving institutions to also maintain their connectivity for inbound MT/FIN traffic

until the last FIN CUG member has migrated.

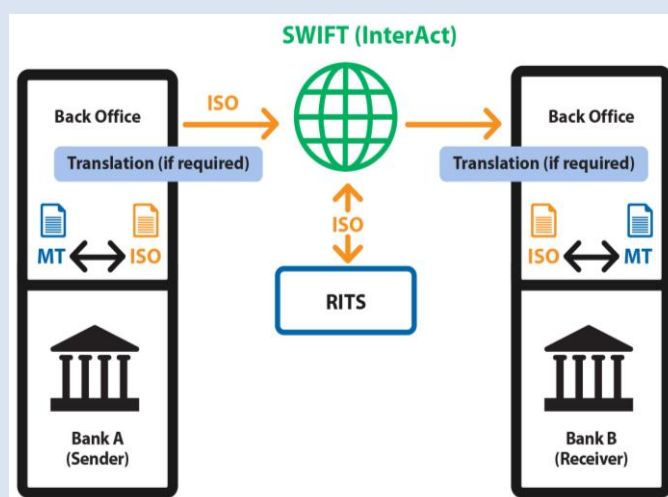
Figure 10: Option 2



Option 3: Mandatory capability to send and receive ISO 20022

A third option could rely on the ability of some translation services to translate outbound SWIFT MT messages into ISO 20022. Using translation services, institutions that are not yet ready to send native ISO 20022 messages would send their translated MT messages over the InterAct service. Similar to Option 2, participants would be required to be able to receive ISO 20022 messages from the beginning of the coexistence phase. This approach would immediately implement clearing and settlement of ISO 20022 messaging between participants and would allow institutions to retire back office MT support once they have completed their internal system changes. It is expected that this type of translation service may come at an additional cost. A drawback in this approach is that it requires all participants to be ready to send and receive ISO 20022 messages at the start of the migration period.

Figure 11: Option 3



The RBA will support processing of both formats for the duration of the coexistence phase (i.e. it will process and respond in the format the message was received). The RBA will not perform translation of any messages in RITS.

Consultation Questions

5. Of the options canvassed in Box C, which domestic coexistence option(s) does your organisation support? Please explain your view.

4.1.3 RITS AIF migration

Coexistence will affect some participants' use of the RBA's AIF service, which currently uses the existing MT standards. For the HVCS and batch migrations to ISO 20022, the main potential impact is to the reporting that RITS provides to ESA holders, as these may contain details of settlements that were submitted to RITS by both MT and ISO 20022 instructions.

Some planning is required as certain ISO 20022 fields may be both richer in data and longer in character length and these may not align to the equivalent fields used in current MT AIF messages (such as ESA statements). The RBA will look to consult with industry to help ensure that current MT AIF reporting can continue without impact to ESA holders from the commencement of the coexistence phase. This will occur as part of the industry discussions to determine the ISO 20022 message usage guidelines.

The RBA intends to introduce a new 'ISO 20022 AIF' CUG during the coexistence phase and this will run alongside the existing MT AIF CUG. The various services offered by the existing MT AIF CUG will be gradually introduced in ISO 20022 format, subject to equivalent ISO 20022 messaging being available. The intention is for AIF members to have the option of selecting the AIF message(s) they will use from either (or both) the MT AIF CUG or the ISO 20022 AIF CUG until the end of the coexistence phase.

Consultation Questions

6. For organisations that use the RBA's AIF service, does your organisation have any initial views on the proposed high-level approach for the use of the RBA's AIF service during the coexistence phase?

4.2 Proposed migration approach

The RBA and APC propose a migration approach that comprises a coexistence phase of three years, consistent with the industry's preference. Given responses to the Issues Paper had mixed views on the timing of the introduction of enhanced content, it is proposed that the industry initially adopts a like-for-like migration that allows for enhanced content to be optionally included in messaging. The enhanced content would become mandatory to include in messages at a later stage within the coexistence phase. This approach would allow participants flexibility with their project delivery to include enhanced content at a time that suits their organisation. Some participants may choose to build enhanced content capability up front, while others may prefer to deliver like-for-like message content in the first delivery phase and enhanced content at a later stage of their project. A phased approach should reduce the risk of managing widespread changes across multiple participants and systems across the industry.

The proposed approach, mapped out in Figure 12, entails the following phases:

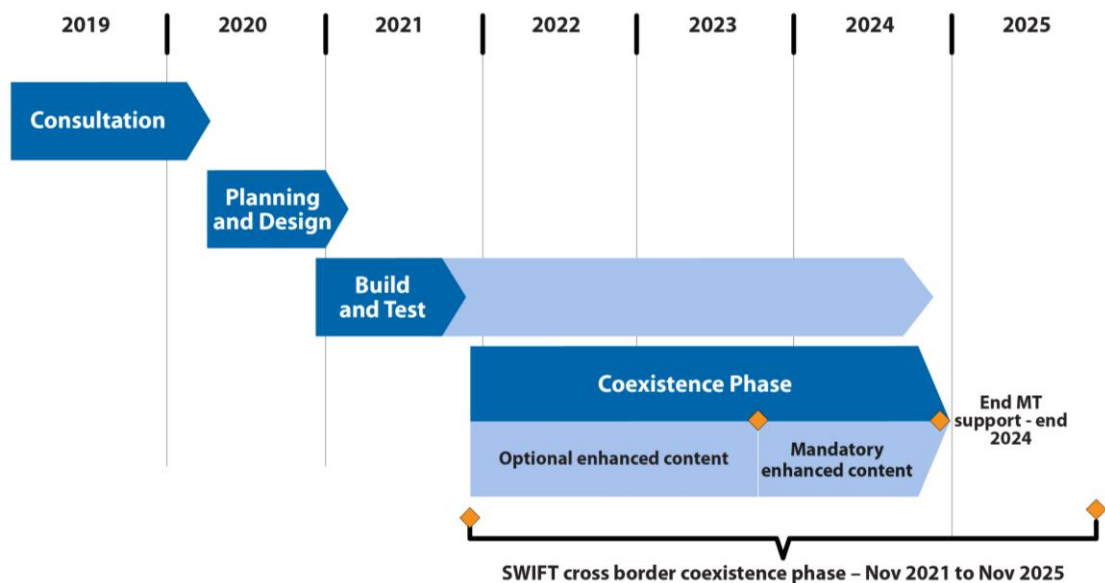
1. Consultation, planning and design, and build and test phases are completed over 2019 to 2021.
2. From November 2021 to November 2023, existing MT messages or new ISO 20022 messages would coexist according to the chosen coexistence option. The ISO 20022 messages would

comprise existing fields mapped from MT messages as well as new fields reflecting the enhanced content. Senders would have the option of whether or not to populate the additional fields.

3. From the beginning of the third year (i.e. from November 2023) enhanced content items (as agreed by the industry) would become mandatory for ISO 20022 messages. MT messages could continue to be generated by those participants that had not yet migrated to ISO 20022. Any participant that chooses to migrate during this year would need to immediately support mandatory enhanced content.

After November 2024, all participants must have migrated to ISO 20022. The RBA intends to no longer support MT messages in RITS.

Figure 12: Proposed Timeline



The timeframe supports organisations that are aiming to align their ISO 20022 adoption with the start of the SWIFT cross-border migration in November 2021. It also enables organisations to choose to introduce support for enhanced ISO 20022 content for domestic messaging any time between November 2021 and November 2023. It should also support organisations that wish to defer their internal migration projects until after November 2023, however, it requires them to move immediately to enhanced content when they do migrate.

Participants that remain on MT messaging after November 2021 will need to manage data truncation resulting from cross-border and domestic payments received in ISO format during the coexistence phase. Participants may also need to manage differences between domestic ISO 20022 message usage guidelines and other international jurisdictions on an ongoing basis. Notably, compliance obligations would still apply to the original message received.

Consultation Questions	
7.	Does your organisation agree with the proposed migration approach (like-for-like with optional enhanced content, followed by mandatory enhanced content)? Please explain your view.
8.	Does your organisation support the proposed timeline for the migration project? Please explain your view.

5. Governance

5.1 Summary of responses

Responses reflect a broad consensus that the migration project should be industry led. There is strong support for an appropriate body (such as the APC, RBA or the Payments System Board (PSB)) to provide oversight and to ensure ongoing industry commitment and accountability.

Many respondents feel that a governance approach similar to the one adopted for the NPP would be appropriate. The preferred governance model includes a steering committee made up of appropriately senior industry executives, a dedicated project management office and working groups made up of industry representative subject matter experts to deliver the specific work streams identified.

A number of respondents support the Australian Payments Network (AusPayNet) taking a lead role in the project's coordination and delivery. AusPayNet is willing to take on this role, including taking responsibility for establishing a steering committee and project management office resourcing.

Respondents noted that careful and close coordination is required across a wide group of stakeholders to effectively manage all aspects of the project, and that working groups would need representation from a diverse range of experts across the industry.

5.2 Proposed governance structure

Consistent with the feedback received, Figure 13 provides an example of how a governance model might be structured.

Figure 13: Proposed Governance Structure



In this model, the APC would provide strategic oversight and ensure ongoing industry commitment to the project, with AusPayNet playing the central role in administering the delivery of the project. There would be periodic reporting to the PSB of the status of the project and the progress in migration. A

steering committee would have responsibility for the strategic and tactical decision making during the program and have overall responsibility, accountability and authority for program delivery. Importantly, this would also include coordination and oversight of individual industry participants' system build and testing programs.

AusPayNet would be the central coordinating authority with responsibility for: establishing the steering committee and project office; developing associated steering committee governance documents (e.g. a charter and minutes); monitoring the effectiveness of the project office's work; and delivering the necessary changes to the HVCS regulations and procedures. AusPayNet would report to the steering committee in relation to its responsibilities. AusPayNet would also need the appropriate level of resources for this important role and may need to recruit additional staff, or manage a contract with a consulting firm (as was the case with the NPP).

Working groups would be established for specific topic areas, as determined by the steering committee, with cross-industry representative membership. Working groups would be convened by the project management office, and meetings scheduled as appropriate to the needs of the program. Working groups and/or sub-committees of the steering committee would be established and dissolved as needed.

As with the NPP project, the steering committee would need to consist of senior payments industry executives typically at Executive General Manager or General Manager level, drawn from small, medium and large organisations across the payments industry. In addition to these representatives, the steering committee could potentially include: an independent chairperson; a representative from AusPayNet, a representative from the RBA's Payments Settlements Department (responsible for RITS) and an independent ISO 20022 payments industry/standards expert (possibly from SWIFT).

Consultation Questions

9. Does your organisation broadly support the proposed governance structure? Please explain your view.

6. Next Steps

The RBA and APC are seeking views from interested parties on the topics and questions presented in this consultation paper. Respondents are requested to use the [Response Template](#) for their submissions. Submissions should be provided no later than 11 November 2019, and should be sent to: ISOConsultation@rba.gov.au. Submissions are welcome from parties that did not respond to the Issues Paper.

All submissions will be published on the RBA's website, unless it is specifically requested that the RBA treat the whole or any part of a submission as confidential. The RBA may endeavour to meet with stakeholders that make submissions.

Privacy

Unless requested otherwise, published submissions will include contact details and any other personal information contained in those documents. For information about the RBA's collection of personal information and approach to privacy, please refer to the [Personal Information Collection Notice for Website Visitors](#) and the RBA's [Privacy Policy](#).

7. Glossary

Term	Definition
AIF	Automated Information Facility. An automated messaging service used by ESA holders to send and receive messages from RITS to perform credit and liquidity management and to receive ESA statements.
AML/CTF	Anti-Money Laundering/Counter-Terrorism Financing.
APC	Australian Payments Council.
AUSTRAC	Australian Transactions Reports and Analysis Centre.
Austraclear	Austraclear is a securities depository and settlement system for debt securities, and provides cash settlement services to the OTC debt market and for derivatives traded on the ASX (equities) and ASX 24 (futures) markets. Austraclear is a wholly owned subsidiary of the ASX Group.
AusPayNet	Australian Payments Network.
CBPR+	Cross-Border Payments and Reporting Plus. A SWIFT and PMPG working group responsible for developing ISO 20022 global usage guidelines for cross-border payments.
CHESS	Clearing House Electronic Sub-register System. CHESS is a settlement system for Australian equities operated by ASX Settlement Corporation.
Cross-border payments	Cross-border payments are sent by an individual, business or government agency from one jurisdiction to a recipient in another jurisdiction.
CUG	Closed User Group.
DE	Direct Entry.
ESA	Exchange Settlement Account.
FSS	Fast Settlement Service.
HVCS	High Value Clearing System. This clearing system is administered by AusPayNet and is used for exchange of high value payments. Also known as the SWIFT PDS.
HVPS+	High Value Payments Plus. A task force formed by SWIFT, along with major global banks and market infrastructures responsible for developing ISO 20022 global usage guidelines for high value payments.
IBAN	International Bank Account Number.
ISO	International Organization for Standardization.
ISO 20022	A messaging standard for financial markets developed and maintained by ISO.
LEI	Legal Entity Identifier. A 20 character unique identifier allocated to organisations using the ISO 17442 format.
LVSS	Low Value Settlement Service. A RITS service used for the lodgement of settlement instructions for obligations arising in APCS, BECS and some card systems.
SWIFT MT (MT)	SWIFT Message Type (MT) messages.
NPP	New Payments Platform.
NPPA	NPP Australia Limited. The company responsible for the operation and management of the NPP.
NPP Full Participant	NPP Full Participants are organisations that directly clear and settle NPP Payments.
NPP Settlement Participant	NPP Settlement Participants are organisations that directly settle NPP payments but who

	have an arrangement with another NPP Participant to clear NPP payments on their behalf.
PMPG	The Payments Market Practice Group is an international forum, facilitated by SWIFT, that assists industry participants formulate better market practices, including the recommended use of standards.
RBA	Reserve Bank of Australia.
RITS	Reserve Bank Information and Transfer System. RITS is Australia's RTGS system, owned and operated by the RBA.
RTGS	Real-time gross settlement. A settlement method by which the transfer of money from one ESA holder to another occurs on a real-time and gross basis.
SWIFT	Society for Worldwide Interbank Financial Telecommunication. A co-operative organisation that operates a network for the exchange of payment and other financial messages between financial institutions.
SWIFT FIN (FIN)	The SWIFT messaging service that enables the exchange of MT messages.
SWIFT InterAct (InterAct)	The SWIFT service that enables the exchange of ISO messages.
SWIFT PDS	SWIFT Payment Delivery System. Also known as the HVCS.