

Brussels, 16<sup>th</sup> September 2019

Dear RTGS Operators Group,

The Payment Market Practice Group (PMPG) recognizes the global efforts of the major RTGS system operators to renew their Market Infrastructures and use this opportunity to move to ISO 20022 as the future format for payments. The structured fields and greater data size of the format will allow the banking industry to automate processing, improve sanctions and financial crime screening and develop better products for our customers.

This global trend led to last year's decision by SWIFT, upon request of its community and after consultation, to migrate the market globally to ISO 20022 for payments, settlement and cash reporting messages as from November 2021, and retire FIN payment messages by the end of 2025 after a co-existence period of four years. In this respect, please allow us to draw your attention to two important factors which need to be taken into consideration –

- interoperability of payment standards
- migration strategies of the respective Market Infrastructures.

#### Interoperability

The work carried out by the major Market Infrastructure providers in the High Value Payment Systems plus (HVPS+) Group provides a solid basis for the future clearing & settlement of the high value payments via the respective Market Infrastructures. The PMPG particularly welcomes the recently established collaboration between the HVPS+ and the newly formed industry group - Cross Border Payments & Reporting plus (CBPR+), which is defining the payment standards for use in the many-to-many space (correspondent banking).

Considering that 30% of high value payments within the global economy are either initiated by debtors or destined for creditors outside their respective currency countries (cross border), interoperability in payments between the various markets is critical to the success of the global economy. Migration to ISO 20022 is a key initiative to support our customers' needs. Any discrepancies in the payment standards between market infrastructures will lead to disruption, lack of business progress and increases in operational risk.

Particularly critical is the smooth interoperability during the co-existence period of FIN and ISO 20022. Within this period, a certain level of flexibility has to be granted to facilitate mapping between formats and manage potential data truncation. Differing ISO 20022 usage guidelines (format specifications) for cross-border vs. market infrastructure payments would further increase complexity and operational risk.

With the completion of the migration to ISO 20022 in the major currencies, we expect the majority of the cross-border industry to have migrated to the new format by Q3 2023. As of this point, additional restrictions, such as the elimination of free format data elements in ISO 20022, or the introduction of additional features, such as LEI, could be considered in a globally harmonized approach.

#### Migration Strategies of Market Infrastructures

The payment industry will start with migration to the extended (fully fledged) ISO 20022 in November 2021. As of this date, any bank globally will be able to receive ISO 20022 messages, either on their own accord or by means of SWIFT conversion services. Procedures will have been put in place by those banks not able to consume ISO 20022 front-to-back, to address the challenge of data truncation.

Furthermore, EUR payments market infrastructures Target 2 and EBA Clearing's EURO1/STEP1 will also complete their migration to extended ISO 20022 by end of November 2021.

### PMPG Assessment and Recommendations

Given the above circumstances, the PMPG would welcome market infrastructure operators globally to reconsider their migration strategies taking into account:

- the new global market (ISO 20022) readiness, as a result of the investments taken by the industry for the migration of the Eurozone, in particular, and the many-to-many space generally, including the mandatory enablement to receive extended ISO 20022 as of November 2021 by SWIFT banks globally
- the negative consequences of a phased approach, such as the truncation required at the point of the local Market Infrastructure in case of a like-for-like phase (for example, payment initiated either by the debtor directly or a correspondent bank in extended ISO 20022 format, requiring data truncation before forwarding via the local clearing system). This could be avoided by the migration to extended ISO 20022 in a single step and in line with the many-to-many space.
- the benefits associated with the migration of the world's largest currencies to the new standard as quickly as possible after November 2021 within a globally agreed timeframe to minimize operational, liquidity and client impact.

The PMPG supports a strategic view that the revision of implementation timelines by the large market infrastructure operators which eliminates a like-for-like phase would simplify the work requirements for both operators and payment system participants, create a more consistent global operating model and result in faster industry adoption of the ISO 20022 message standard. The PMPG would welcome an ongoing dialogue between the industry and the global RTGS system operators during migration to facilitate close alignment of the usage guidelines and migration strategies, and beyond to keep abreast of the latest market developments and jointly guide the industry through any changes.

Yours Sincerely

Mr Roy DeCicco

Co-Chair, Payment Market Practice Group

Mr Russell Saunders

Co-Chair, Payment Market Practice Group