

# THE HARMONISED APPROACH TO ISO 20022 ADOPTION

**Patrik Neutjens, programme director at SWIFT talks to us about the launch of the ‘ISO 20022 Harmonisation Forum’ and the benefits it can offer MIs worldwide as the move towards ISO 20022 global adoption gains momentum...**

“The 25 financial market infrastructures (FMIs) who were the first to sign the ISO 20022 Harmonisation Charter in 2015 embarked on a journey,” says Patrik Neutjens, ISO 20022 programme director at SWIFT. “There was still a lot of thinking and learning and understanding to do, about the various ways in which ISO 20022 could be implemented, and their consequences. Now we find that, when other FMIs want to implement ISO 20022, we have to take them on the same journey, so the learning curve is still steep. The purpose of the Harmonisation Forum is to make the ISO 20022 adoption and implementation process much easier.”

The on-line Forum, which was launched in May this year, provides FMIs with the best practice principles of the ISO 20022 Harmonisation Charter drawn up by SWIFT in 2015, detailed use-cases, and a space where financial market infrastructures can share experience of successes, failures and avoidable mistakes. Members can also ask questions of each other, and seek advice directly from SWIFT. As host, SWIFT will also put individuals at different FMIs in touch with each other, and publish helpful material.

“The information published on the Harmonisation Forum is not new,” says Neutjens. “But it does group information about ISO 20022 in a place where it is convenient to access it.” Later this month, SWIFT will enrich the Forum with a white paper detailing the approaches taken by FMIs to their ISO 20022 implementation programmes, and itemising what experience so far suggests are the best practices to adopt.

“The purpose of the Harmonisation Forum is to reach beyond the original 25 FMIs, and beyond the other FMIs that already have concrete plans for implementing ISO 20022,” explains Neutjens. “We want to get the wider community of FMIs around the world to recognise that ISO 20022 is coming, that they

will be exposed to it, and that they should not wait until the last minute to make plans to adopt and implement it. The aim of the Forum is to inspire, as well as inform, FMIs, and increase the signatories of the Charter – and especially the number following global best practices.”

ISO20022 has momentum already. This is especially noticeable among Real Time Gross Settlement systems (RTGSs) and their users, thanks to the endorsement of central banks. Unlike the securities industry, for which ISO 20022 represents an advance on a concept familiar from their earlier adoption of the ISO 15022 standard, the payments industry is less familiar with ISO standards. “Going from MT messages to ISO 20022 messages is a bigger leap than going from ISO 15022 to ISO 20022,” says Neutjens. “So it matters that RTGSs, which are operated by central banks, are endorsing ISO 20022.”

In Europe, the European Central Bank (ECB) has chosen it for both the Target RTGS and Target2-Securities (T2S) platforms. The Bank of England has adopted ISO 20022 for its proposed new high-value payments system. In the United States, the US Stakeholder Group, led by the Federal Reserve and The Clearing House (TCH)<sup>1</sup>, has endorsed ISO 20022 for domestic and international payments. In Japan, the central bank has used ISO 20022 for foreign exchange Yen clearing since October 2015. A year later, the People’s Bank of China also chose ISO 20022 to underpin the Cross-Border Interbank Payment System (CIPS) it launched.

Naturally, the endorsement of ISO 20022 by the central banks of the major currencies of

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<sup>1</sup> The US ISO 20022 Stakeholder Group is made up of the Federal Reserve, the Clearing House Payments Company, NACHA – The Electronic Payments Association, and the Accredited Standards Committee X9 – Financial Industry Standards, Inc.

the world has required commercial banks to invest in implementation of the standard. But it is still true to say that it is the RTGSs and central securities depositories (CSDs) of the world that are really pioneering ISO 20022.

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It is simpler for an FMI to adopt the ISO 20022 standard than a commercial bank. Unlike banks, which have to connect to multiple FMIs, most market infrastructures serve a single, closed national community of users. The disadvantage of this inward focus is that it gives FMIs scope to define how the ISO 20022 standard will be used by the members of their community. For global banks, which are active in multiple markets, this can be problematic.

In fact, it was why SWIFT launched the Harmonisation Charter in the first place. “Three years ago, we were getting the first signs from large international banks that RTGSs and CSDs were moving to ISO 20022, but each was doing it in a different way,” explains Neutjens. “Instead of a single global standard, every implementation was sui generis. There was no consistency, no discipline, and no global market practice. For the banks, this meant much higher costs, because connecting to each national infrastructure was an entirely new project every time.”

There was nothing sinister about the inconsistency between FMIs. It reflected the lack of any framework to guide national implementation programmes, and of any forum where FMIs could learn from each other. It was this which prompted SWIFT to convene the meeting of FMIs at Sibos in Boston in October 2014 that led to the signature at Sibos in Singapore a year later of the Harmonisation Charter. The initial group of signatories, which numbered 25, has since expanded to 40.

The Charter commits its signatories to sharing information about their implementations – which will now take place through the Harmonisation Forum- and adhere to an

agreed set of market practices drawn up in collaboration with SWIFT. Lastly, Charter signatories agree always to adopt and operate the latest version of the ISO 20022 messages. This last point was crucial. Unlike FIN messages, which SWIFT control directly and can require users to switch to the latest version once a year, ISO standards allow users to make their own decisions, including persistence with older versions.

“We are now developing a FIN-style discipline in the ISO 20022 world, which will reduce operational costs for the banks,” says Neutjens. “It means they have only one annual maintenance and upgrade cycle. Of course, there are FMIs out there who are still using old versions of ISO 20022, for good reasons and bad, so the Charter is not yet working perfectly, but consistency is definitely improving. Once a year, unless they have a good reason to deviate, every Charter-endorsing FMI is now committed to move to the latest version of the ISO 20022 standard.”

The cycle for the first annual switchover to a revised standard started this month, and will close in June 2018. This does not mean fresh versions of the ISO 20022 messages will be released every year, but it does reassure the users of FMIs that new versions will adhere to a set of common practices and be implemented by a given date. It also ensures that older versions become obsolete. This discipline matters when transactions cross borders, and banks must rely on inter-operability between FMIs.

“Payments and securities market infrastructures are inter-connected and inter-dependent,” explains Neutjens. “A lot of transactions pass through multiple systems, so consistency in messaging is important not just for the FMIs, but for their participants.” This is more challenging to deliver than it sounds. ISO 20022 messages can carry additional data. Ensuring they make use of this

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capability, without losing the data consistency on which inter-operability depends, is the principal objective of global market practices.

The investment by RTGSs in retail real-time payments systems (RT RPS) provided an early test of the strength of the Charter in enforcing global market practices. “When countries started to move to real-time retail payments in 2015, it was decided very early on that ISO 20022 would be used,” says Neutjens. “For the first time, FMIs agreed a set of global market practices for an implementation.” A second important instance was the development of the HVPS+ ISO 20022 global market practices for high value payments systems, developed by the HVPS Task Force.

Now the Harmonisation Forum aims to share what FMIs have learned from pioneering the global best practices approach. “If the users of an FMI want to adopt ISO 20022 for regulatory reasons, there is no point in adapting ISO 20022 to what you are doing already,” explains Neutjens. “To comply with the regulation, you have to introduce new features. You also have to take account of the differences in the size and capabilities of your users, so the larger participants with more resources leverage the benefits of ISO 20022 first, without losing compatibility with the smaller participants.”

Signatories to the Charter are of course committed by its principles to share their experiences openly with other signatories, irrespective of size and resources. Non-signatories have a lower level of access to the content of the Forum, to encourage them to endorse the principles of the Charter as well. But Neutjens points out that FMIs are in practice happy to share information widely, because they recognise their inter-dependence, and the fact that different FMIs will move at different speeds.

“Endorsing the Charter means an FMI gets access to the plans and records of FMIs that have decided to transition already,” he says. “FMIs are happy to share the information because they see mutual advantage in as many FMIs as possible transitioning successfully to ISO 20022. You can in fact endorse the Charter without a specific plan to move your business wholesale to ISO 20022. You are committing only to abide by the best practice principles of the Charter when you move any part of your business to ISO 20022.”

Today, only weeks on from the launch of the Harmonisation Forum, it is too soon to detect patterns in how FMIs are using the platform. But Patrik Neutjens is pleased at the level of detail FMIs are now sharing about the objectives and constraints of their ISO 20022 implementation programmes, and the lessons they have learned from them. “FMIs are so inter-dependent and inter-connected that they need a common language in which to exchange information, and the only way we are going to achieve that common language is by being as inclusive as possible,” he says. “The Harmonisation Forum is an expression of that inclusiveness.”

**If you would like to join the ISO 20022 Harmonisation Forum, please send an email request to [evelyne.piron@swift.com](mailto:evelyne.piron@swift.com) to sign up as a member.**

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SWIFT BIC: SWHQ BE BB  
<http://www.swift.com/>

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