

# When universal meets local

Greater coordination is needed to ensure ISO 20022 does not become a victim of its own success.



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Roy DeCicco, managing director, global markets infrastructure group, JP Morgan

to use ISO 20022 corporate actions messages.

Bjorn Stendorph Crepez, VP Securities' head of business development, issuance and safekeeping, says use of ISO 20022 is more than an IT implementation project. "Our ISO 20022 implementation strategy will help us to unlock business opportunities," he says. "Also, as an early adopter of the standard in the Nordic region we are able to shape the way in which use of ISO 20022 will evolve." Conscious of the risks of fragmentation, VP Securities senior product manager Niels Hougaard is keen to minimise the number of variants and versions of ISO 20022 messages and to limit the period of coexistence with ISO 15022-based messages and platforms, to minimise operating costs. To this end, VP Securities is an active member of the Securities Market Practice Group and has signed up to the SWIFT ISO 20022 Harmonisation Charter, which aims to help market infrastructures collaborate with one another to drive harmonisation (see sidebar).

When adapting ISO 20022 to the specific needs of the Danish securities and investment market, VP Securities has taken a similarly consultative approach. Unlike some European CSDs, VP Securities holds accounts on behalf of individual investors, and so had to develop some distinct message standards, doing so in close consultation with SWIFT and local market participants. "We have used the full ISO 20022 message set, following

best practice and maintaining dialogue with SWIFT, to ensure message interoperability and harmonisation," says Hougaard.

## Migration difficulties

Differences between ISO 20022 implementation projects can arise from their approach to migration from legacy FIN messages. Simply replacing FIN messages with their nearest ISO 20022 equivalents might seem practical, but dangers lurk. Because ISO 20022 message fields are highly structured (to facilitate high levels of straight-through processing), a like-for-like migration from less-structured FIN messages would potentially

require ISO 20022 messages to accommodate the unstructured data carried by the FIN message format. "Not only does this mean that the structured fields of the ISO 20022 message are not fully optimised, but it would create barriers to cross-border use of messages to jurisdictions that had taken a different, more content-rich approach to ISO 20022 implementation," says Paula Roels, director of market management, institutional cash and securities services, Deutsche Bank.

In the payments realm, it was SWIFT Standards that first flagged to the Payments Market Practice Group (PMPG) - and to the relevant market infrastruc-

According to the ISO 20022 Adoptions Initiative Report more than 80 projects to implement ISO 20022 for financial transactions across different business areas and geographies have been started or completed. Even for a universal messaging framework, that's a lot of use cases. In each case, the core ISO 20022 message sets may be moulded to meet very specific needs, in some very different markets. No wonder, perhaps, that concerns have been raised that too much innovation can lead to fragmentation of ISO 20022, undermining the interoperability that is its unique selling point.

The challenge faced by all these projects and those that will surely follow is how to implement ISO 20022 to take advantage of its flexibility while preserving its interoperability benefits. A careful balance between the universal and the local is a good start.

Take the case of VP Securities, Denmark's central securities depository (CSD). VP Securities' use of ISO 20022 is closely tied to the CSD's internationalisation strategy. The introduction in June 2015 of a single European securities settlement system - TARGET2-Securities (T2S), operated by the European Central Bank - forces CSDs to compete with each other for settlement and asset servicing revenues. VP Securities will join T2S in 2016 for euro-denominated transactions and will support Danish krone-denominated settlement from 2018.

## A strategic approach

In theory, CSDs from smaller European markets are considered vulnerable to rivals that can offer greater economies of scale, but VP Securities' plans are already well developed. The firm established VP LUX, a Luxembourg-based CSD in 2008 to help Danish banks to issue Eurobonds from within the Euro-zone and has since broadened its services to international bond issuers and investment fund issuers. To make it as easy as possible for its international clientele to connect to its services, VP Securities already uses ISO 20022 across a number of capabilities. VP LUX is decommissioning its ISO 15022-based and proprietary message formats in favour of ISO 20022, while vp.FUND HUB, the firm's automated international fund distribution platform, only uses ISO 20022 messages for order routing and related processes. VP Securities is also planning



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ture operators - the possible risks of fragmentation caused by the differences in how ISO 20022 was being implemented in different high-value payment systems.

"There is an increasing level of interest in adopting ISO 20022 for high-value payments (HVPs) in key markets," says Roy DeCicco, managing director, global markets infrastructure group at JP Morgan, and PMPG co-chair. "Some are looking to use ISO 20022 messages to replace existing messages on a like-for-like basis, while others are planning to adopt a wider range of the available message set in order to utilise the richer content. As projects increase and diversify, we have good reason to look carefully at cross-border interoperability between different countries' ISO 20022-enabled high-value payments systems."

As a result, the PMPG has sponsored the development of a set of guidelines for common adoption of ISO 20022 in the high-value payments systems clearing and settlement space, already used in India and Brunei.

### Real-time response

High-value payments system operator EBA Clearing is also

planning to introduce a pan-European real-time payment processing service 2018, and recently launched an RFP for a technical solution provider. "Real-time payments initiatives start off domestically focused," explains DeCicco, "But we anticipate that very rapidly retail and corporate users will soon want to use them on a cross-border basis. As such, we decided to get ahead of the curve by setting up a group to look at how real-time payments initiatives were using ISO 20022 in order to draw up some guidelines for implementation and usage." This will help to reduce the cost and complexity for multi-national organisations of connecting to multiple real-time systems in multiple markets, and may eventually simplify interoperability between the systems themselves.

At the instigation of UK trade association Payments UK, the ISO 20022 Real-Time Payments Group was founded in May and has worked on a draft set of implementation guidelines for use of ISO 20022 in real-time payments projects. It is due to be approved in December. DeCicco says the need for a harmonised approach is urgent: "There is some variety in how different

countries have implemented ISO 20022 for real-time payments. This current dialogue is a first step toward understanding how best to use the messages to cater for specific real-time payment scenarios, call out the differences and develop usage guidelines that will enable countries to exchange ISO 20022 real-time payments messages across borders.

From Roel's perspective, customer demand is driving the need to implement ISO 20022 with interoperability firmly in mind. "In the digital age, cli-

ents operate on a global not a regional basis. Even with use of a universal message framework like ISO 20022, differences between market infrastructures can still impose limitations on end-users. As global citizens, our retail and corporate customers want a single experience, regardless of whether they're paying in euros, dollars, or any other currency. This means banks and market infrastructures need to maintain regular dialogue to achieve the level of coordination and collaboration needed," she says. ■

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### Bringing a little harmony to ISO 20022

The principles for a common, industry-designed ISO 20022 harmonisation framework have been captured in SWIFT's ISO 20022 Harmonisation Charter which aims to support collaboration between market infrastructures. Market infrastructure operators that have already committed to this include CLS, Clearstream, Euroclear, National Settlement Depository of Russia, VP Securities Denmark, ACH Colombia, Bank of Canada, Canadian Payments Association, Australian Securities Exchange, Hong Kong Interbank Clearing and the Southern African Development Community. Other market infrastructures are supportive of the Charter pending development of their implementation plans.

"The consistent adoption of the ISO 20022 standard avoids the costly exercise of solving common processing challenges in multiple ways", says Edwin de Pauw, head of product management, Europe for Euroclear. "The ISO 20022 Harmonisation Charter is a pillar enshrining the industry's collaborative approach to greater efficiencies and straight-through processing."

**To join the ISO 20022 Harmonisation Charter Ceremony, go to the Standards Forum stand at 16:45 today.**

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