



Market Practice Guidelines for the adoption of Chinese Commercial Code (Version 2.0, January 2018)

Note: Relevant regulations and any applicable legislation take precedence over the guidance notes issued by this body. These Guidelines represent an industry's best effort to assist peers in the interpretation and implementation of the relevant topic(s). The PMPG - or any of its Members- cannot be held responsible for any error in these Guidelines or any consequence thereof.

The Payments Market Practice Group (PMPG) is an independent body of payments subject matter experts from Asia Pacific, Europe and North America. The mission of the PMPG is to:

- take stock of payments market practices across regions,
- discuss, explain, and document market practice issues, including possible commercial impact,
- recommend market practices, covering end-to-end transactions,
- propose best practice, business responsibilities and rules, message flows, consistent implementation of ISO messaging standards and exception definitions,
- ensure publication of recommended best practices,
- recommend payments market practices in response to changing compliance requirements

The PMPG provides a truly global forum to drive better market practices which, together with correct use of standards, will help in achieving full STP and improved customer service.

This document has three main sections:

- **Market Practice Guidelines:** Describes the guidelines that the PMPG proposes to the global payments community.

- Observations and Recommendations: Comments on the general impact of the guidelines and areas of further discussion.
- Frequently Asked Questions: Addresses specific questions that have been raised to the PMPG in relation to the subject that is addressed in the document.

The text starts by giving the background.

The PMPG will regularly review these guidelines, using the frequently asked questions and community feedback as input.

Market Practice Guidelines

1 Background

Commercial trade with countries using non-Latin characters poses the problem of identifying names and addresses in a non-ambiguous way.

In the payments market, such a problem may complicate and slow down the payments execution; in fact, it may create difficulties along different phases of the payment execution, from the execution of the compliance screening to the identification of ordering or beneficiary parts and so on.

Another set of problem arises when the international payment must settle through a local clearing requiring parties' names expressed in the local language.

In exploring which is the best payment practice to adopt, the intent is:

- a. To enhance STP: reducing manual interventions and increasing straight through processing;
- b. To facilitate compliance screening eliminating, when possible, ambiguity in character transliteration;
- c. To respect domestic practices: practice in international payments must be coherent with domestic payments standards' requirements.

This document focuses on the transmission of **Chinese Character Codes** via **FIN** messages and on market practices in countries using them. Countries involved are those of the **Chinese Character Using Group**, which refers to the countries and areas where Chinese characters are widely used to record bank customers' name and address by the Chinese communities, including **The Chinese Mainland, Hong Kong, Taiwan, Macau, Singapore and Malaysia**.

2 Chinese Character Codes and SR2018

Chinese characters are widely used to record bank customers' names and addresses in countries and areas including The Chinese Mainland, Hong Kong, Taiwan, Macau, Singapore, Malaysia.

Banks in The Chinese Mainland are required to strictly match the customer's account number, name and address with the record entered in the bank's Master Data Registry system, before booking any entry into the customer's account. It is, therefore, important to allow precise transfer of Chinese characters in payment messages.

Because of character-set limitations in FIN messages, banks transfer Chinese characters using the Chinese Commercial Code which enables an exact 4-digit presentation of most frequently used Chinese characters. In the past, different banks used different versions of CCC, including the 1972 version by Commercial Press Hong Kong and 1983 version by the Posts and Telecommunications Press. A lack of unified code tables supporting both simplified and traditional Chinese characters, as well as usage guidelines, have a negative impact on payments STP-rate and generate higher operational risk.

The **CCC Maintenance Working Group** was established in 2014 with the scope of maintaining and publishing an updated and industry-wide agreed version of the electronic CCC table together with a usage document on swift.com, and make it available for consultation by all SWIFT users.¹

To improve the CCC usage, SWIFT included in the standard release, SR2018,² the usage of CCC in payment messages (field 50A, 58A and 59A³ under bilateral agreements), publishing in the SWIFT.com dedicated page⁴ the updated e-CCC code table and the guideline book.

¹ The latest version of CCC table and guidelines have been published at <https://www.swift.com/standards/standards-resources?category=7051>.

² CR 001302.

³ Message types impacted include: MT 101, MT 102, MT 102 STP, MT 103, MT 103 STP, MT 103 REMIT, MT 110, MT 202, MT 202 COV, MT 203, MT 205, MT 205 COV, MT 210, MT910.

⁴ <https://www.swift.com/standards/standards-resources?category=7026>

3 Business Flow

Summary of current generic payment flows in different markets:

	Outbound	Inbound
The Chinese Mainland	<u>Bene is overseas:</u> <ul style="list-style-type: none"> English is preferred by banks, esp. international banks; CCC may be supported, esp. among the CCUG; If it's RMB, the payment with CCC can get through if the corr. bank and bene bank are both able to accept CCC; If it's FCY, the payment with CCC generally gets rejected by overseas corr. bank whenever CCC is not accepted. 	<u>Remitter is overseas:</u> <ul style="list-style-type: none"> English is preferred. CCC is acceptable, but may reduce STP rate and require further activities by the 2 banks.
	<u>Bene is in the Chinese Mainland:</u> <ul style="list-style-type: none"> If it's RMB, Chinese character is used directly; If it's FCY, most payments are still in English. There may be beneficiary banks asking for CCC, because they only have beneficiary account names registered in Chinese. 	<u>Remitter is in the Chinese Mainland:</u> <ul style="list-style-type: none"> If it's RMB, Chinese character is used directly; If it's FCY, similar to "Remitter is overseas" scenario, both English and CCC are acceptable.
HK	<u>Bene is overseas:</u> <ul style="list-style-type: none"> English is preferred by banks, esp. international banks; CCC may be supported but used mainly for payments to the Chinese Mainland. 	<u>Remitter is overseas:</u> <ul style="list-style-type: none"> English is preferred by banks, esp. international banks CCC may be supported but used mainly for payments from the Chinese Mainland.
	<u>Bene is in HK:</u> <ul style="list-style-type: none"> English is generally used. 	<u>Remitter is in HK:</u> <ul style="list-style-type: none"> English is generally used.

	Outbound	Inbound
Taiwan	<u>Bene is overseas:</u> <ul style="list-style-type: none"> English is preferred; CCC may be supported and are used mainly for payments towards The Chinese Mainland. 	<u>Remitter is overseas:</u> <ul style="list-style-type: none"> English is preferred; CCC may be supported and are used mainly for payments from The Chinese Mainland.
Macao	<u>Bene is overseas:</u> <ul style="list-style-type: none"> English is mostly used in payment transactions, including local clearing system. CCC manual processing may be available. 	<u>Remitter is overseas:</u> <ul style="list-style-type: none"> English is mostly used in payment transactions, including local clearing system. CCC manual processing may be available.
Singapore and Other Markets	<u>Bene is overseas:</u> <ul style="list-style-type: none"> Use of CCC is always based on bilateral agreements. Without bilateral agreement, the business flow reduces STP and beneficiary's bank may ask information in English via MT199. 	<u>Remitter is overseas:</u> <ul style="list-style-type: none"> Use of CCC is always based on bilateral agreements. Without bilateral agreement, the business flow reduces STP and beneficiary's bank may ask information in English via MT199.

4 Special concerns on regulatory screening or regulatory questions.

4.1 AML and Sanctions screening process using CCC:

- In the markets where CCC is generally **accepted**, *e.g.* The Chinese Mainland and HK, there are different ways to process CCC:
 - **Partial automation:** CCC can be converted automatically to Chinese characters by the banks' systems. Since many sanctions lists are only available in English, operations need to manually convert Chinese characters to Pinyin and to conduct the screening.
 - **Full automation:** some banks may have systems with higher automation capabilities and can convert CCC from/to Chinese characters; their back-ends can also recognize Chinese characters as Pinyin to fulfill sanction screening

requirements. Please note that some Chinese Characters may have multi-pronunciations, therefore a manual conversion processing is preferred for regulatory transaction screening⁵.

- In the markets where CCC is **not accepted**, screening is a big challenge for banks receiving messages containing CCC. Banks may send RFI to remitting party for further clarification or simply reject the payments.

	Pros	Cons
Completely manual	No tech enhancement, no impact to all upstream and downstream applications, easy to implement.	High manual processing costs. Operational inefficiency / risks in the manual conversion and screening. Slower payments and delays in the value chain.
Partially automated ⁶	Lower investment in tech, limited impact to associated applications, easier to implement compared with fully automated model.	Still involves a lot of manual processing, increases the handshake time between different processes and is prone to operational error / risk.
Fully automated	Much higher processing efficiency. STP payments are faster.	High investment requirement, complex project implementation with changes to all related applications. Potential compliance issues.

4.2 Payment Transparency

A lot of banks are reinforcing the importance of Payment Transparency⁷. The CCC has added a new issue to this topic by introducing codes that are not easy to understand.

4.3 Regulatory reporting process change

This is related to the information banks submit to the regulators. Most AML regulatory reporting does not induce the expectation of receiving “sequence of numbers” instead of names and addresses.

⁵ See in the Recommendation section.

⁶ CCC to Latin character is automated, but screening of characters is manual.

⁷ Wolfsberg Group - Payment Transparency Standards.

Observations and Recommendations

Overall	<p>Observations</p> <ul style="list-style-type: none"> • When the use of CCC involves at least one country outside the Chinese Character Using Group, and there is no bilateral agreement in place, it may result in stopping STP or in slowing down the payment.
	<p>Recommendations</p> <ul style="list-style-type: none"> • Use of CCC should be limited to the following cases: <ul style="list-style-type: none"> ○ cross border (or domestic) payments among CCUG countries; ○ between counterparties with a bilateral agreement in place. • Use of CCC in cross border payments, involving countries which are not CCUG should be avoided when not agreed bilaterally.
The Chinese Mainland and Hong Kong	<p>Observations</p> <ul style="list-style-type: none"> • In the Chinese Mainland, domestic FCY payments may incur in the CCC issue when a foreign correspondent bank routes the payment. Some banks use the local FCY clearing network and avoid the problem. • Although banks in the Chinese Mainland and HK can recognize CCC and process transactions accordingly, they don't replace the CCC with Pinyin in the outbound message. Therefore, when the above banks act as correspondent banks, some of the payments still get rejected by the beneficiary banks who are located outside the Chinese Mainland or HK and do not accept CCC.

	<p>Recommendations</p> <ul style="list-style-type: none"> • Chinese FCY clearing systems have different message types for domestic and cross-border payments respectively. Chinese Characters are available in domestic transactions while messages involving cross border do not use Chinese Characters. In this case, CCC is unnecessary and should not be considered. • In case of domestic transactions, whenever customers can only provide Chinese payment information, since transactions are within China mainland market, CCC can be used following the SWIFT SR2018 rules⁸. • Concerning payments related to other markets, CCC is not the preferred option. Banks are encouraged to use alternative approach like Pinyin or English. Customers should be informed of the possibility of rejection and delay when using CCC. • Concerning the CCC to Pinyin conversion by banks, it is encouraged to confirm (with ordering customers) manually, considering the fact of multi-pronunciations of certain Chinese Characters.
Macao, Taiwan, Singapore	<p>Observations</p> <ul style="list-style-type: none"> • The acceptance of CCC is different among Chinese Character Using Group⁹. While banks in The Chinese Mainland and Hong Kong generally have enhanced their systems to utilize CCC, the acceptance seems to be lower in Taiwan and Singapore. It is possibly because Taiwan has as market practice to use English for international fund transfers and Singapore is mainly an English driven market.
	<p>Recommendations</p> <ul style="list-style-type: none"> • Since it is not a big effort to use Chinese Characters for payments sent to these markets, the key development for banks can be focused on accommodating CCC in outbound messages; the case of conversion from English / Pinyin to CCC is quite rare.
Other Markets	<p>Recommendations</p> <ul style="list-style-type: none"> • Use of CCC in cross border payments should always be based on bilateral agreements.

⁸ See above paragraph 2.

⁹ **Chinese Character Using Group** refers to the countries and areas where Chinese characters are widely used to record bank customers' names and addresses by the Chinese communities, including the Chinese Mainland, Hong Kong, Taiwan, Macao, Singapore and Malaysia.

Frequently Asked Questions

Q How can an overseas client instruct using CCC?

A Overseas clients need to manage conversion tables linking beneficiary names, Chinese characters and the CCC. Those tables must be shared with the instructing bank to ease compliance screening.

Q Regarding Account Services, have all institutions developed a posting system to read the CCC and post the transaction to client's counterparts?

A No, only a few banks have developed such transformation services, and mostly partially automated and not fully.

Q One of the main concerns that have limited the use of the RMB in international trade settlements, notwithstanding the fact that China is now the world's second largest economy and one of the highest recipients of offshore remittances, is an AML issue dealing with Chinese names. This document describes how concerns are being addressed. What type of regulation is available in the group of countries mentioned in this document regarding CCC?

A In China, money-laundering is taken very seriously. Currently the current regulatory requirements regarding CCC are minimal. Everything is managed by a few banks and with bilateral agreements. Few banks are investing, waiting for possible industrywide standard.

China Ministry of Public Security issues sanction list in Chinese. Besides, AML system vendors should be able to deal with Chinese names in different sanction lists, and match a sanctioned name in different spellings including the CCC approach. Causes of the different spellings include one character with different pronunciations (by meaning or by location), or different ways to input Chinese phonetic letters that doesn't exist in English e.g. "ü".

PMPG is working towards the diffusion and recommendation of the best market practices.

Q Do international agencies such as OFAC issue sanctions lists in Chinese Characters?

A No, international agencies use English characters.

Q Could 2 banks in countries that are out of scope exchange RMB payments using CCC characters? For example, a bank based in Frankfurt sending RMB to a bank based in Madrid?

A Yes, they could in theory. But they need to have bilateral agreements and it would be unnecessary to use CCC characters.

Q How do sanctions filter 4 digit characters? Will bodies like OFAC update lists with CCC? Is there an alignment of this codewords with FATF guidelines for recording characters in payments?

A Supranational authorities did not express on the matter, so far.

Q Can the use of LEI (Legal Entity Identifier) be an alternative option and provide a cleaner solution than conversions/translations?

A LEI could solve some of the problems; however, scenarios like individual payments cannot be solved by LEI for now.

Q Is Pinyin a better technique to use?

A Pinyin is an alternative solution; however, due to existence of multi-pronunciation characters, it is not a better solution.

Q Can you explain why a 4 digit CCC is sufficient to represent all the Chinese characters?

A Only most frequent Chinese Characters are picked in latest CCC usage guidelines. The total number of Chinese characters cannot be represented with only 4 digits.

Q If fragmentation is a risk, what are the key features of harmonization?

A Fragmentation is why bilateral agreement must be put in place. The key feature of harmonization is to identify the content of target information.

Q Does a sufficient number of international stakeholders who support harmonization?

A There is more awareness of the problem around the world.

Q What role does dialect play in CCCs and is there guidance on how to deal with that?

A No, dialects usage is not included in CCC guidelines.

Q In a distributed payment world, how viable is a reliance on bilateral agreements for CCC usage?

A It depends on the frequency of such business scenario. Regular payment involving CCC would be benefit from such bilateral agreement and may improve STP level.

Q Should we set one EY principle that is to ensure NO alternation of the original message?

A CCC or any other means should be supplementary to the original info. It depends on the length of original information to allow bilingual information.

Q The different character sets would appear to be a hurdle that needs a uniform answer to allow global standardisation for other initiatives such as open banking?

A Open banking solutions suffer lack of standardisation.

Q Are Chinese characters in MT the same in MX?

Does ISO 20022 migration for cross border payments solve this problem of character sets?

How is this issue going to unfold in an ISO world when we have much more data that may need to be "translated"?

As ISO messaging is more broadly adapted, will use of different character set because a big issue?

A ISO 20022 can transfer larger structured information and support UC8 which covers a larger set of Chinese characters as well as other international character.

Q How much longer will it be viable in China to have mandatory match of name to account number, given the obvious impact to STP and payment 'speed'?

A Why is there a need to check names, can't we only use ac number as the identifier? In many jurisdictions, the account number is not sufficient for control purpose and full name is required. That applies to both payee and payer for either incoming or outgoing payments.