Best Practice Guidelines for the Payment Industry Migration to

ISO 20022

(Version 1, December 2021)

Core Principles for a Successful Payment Industry Migration to ISO 20022

The ISO 20022 format is a highly structured message format with the ability to hold significantly more data than current SWIFT MT messages. The enriched data sets will promote end-to-end automation throughout the transaction life cycle and increase machine-readability, enabling faster processing, greater openness, visibility and interoperability across different markets and Financial Market Infrastructures (FMIs). The structure of the messaging will allow for more efficient and effective processes—especially as relates to core payments processing, sanctions screening and reconciliation both by banks across the payments chain and end clients including its service providers. The implementation and the global adoption of ISO 20022 across the cross-border payments ecosystem over the next 12 months and beyond is pivotal to creating a better message / data model for payments, within an extensive payment chain where requirements to transport data without any loss on an end-to-end basis is gaining extensive regulatory attention. Successful adoption creates major efficiencies in payments leading to greater speed, automation and digitization in both the payments and post-payments processes. It leads to a vastly improved enhancing end-user and client experience with faster processing, greater Straight Through Processing (STP) rates and lower costs. However, the success of this transition will require communities of market participants across the ecosystem to invest in this change beyond a "like for like" migration with existing antiquated MT standards and to being truly "ISO Native". The migration to ISO 20022 for Payments messages across the SWIFT network will commence on November 2022 and end in November 2025. This will be complemented by migrations across FMIs around the world with 85%+ of the world's payment messages by market value expected to migrate by this end date. During this time, there will be challenges regarding interoperability, especially for payments across markets that have and have not adopted the current ISO 20022 message formats. These challenges could lead to a heightened risk of truncation, data loss and potential implications in regulatory reporting where the underlying requirement is to transport data without loss on across the end-to-end cross-border payment chain. Clear definition of specifications and harmonized guidelines are key to guide the market through this period of uncertainty and change.

The goal of this document is to reiterate the underlying need to transport data without loss across the cross-border payment chain, provide high level Core Principles for a successful migration to ISO 20022 across the industry and a guide to navigate some of the potential interoperability challenges facing the broader payments community. As this migration will require all players within payments ecosystem to move forward together as a community, the intended audience includes: banks including its clients and their service providers, SWIFT, market infrastructures, industry groups and regulators alike.

Payments Messages:

1. Banks and Market Infrastructures must aim to migrate to rich ISO 20022 messaging standard as soon as possible. While the SWIFT Cross Border Payments Reporting (CBPR+) coexistence period will end in 2025, delaying the preparations to migrate will increase risk for those participants and lead to interoperability issues as markets begin to mandate structured ISO 20022 fields.

2. Effective November 2022, with the deployment of the ISO 20022 in correspondent banking, whilst some banks would have native ISO 20022 capabilities, all banks will start receiving multi-format messages via SWIFT as a default set-up for messages initiated in ISO 20022. Multi-format messages are ISO 20022 messages with the embedded MT representation as a result of the in-flow translation. In-flow translation is a central translation applied by SWIFT to eligible pacs & camt messages on the FINPlus services before delivery to the receiver. This service only supports ISO 20022 to MT format translation and is based on the CBPR+ translation rules. Cases where data has been truncated are explicitly indicated. For more information

banks should consult their SWIFT representatives or https://www.swift.com/standards/iso-20022/iso-20022-programme

3. The correct formatting and usage of message standards are key to enable smooth processing across both protocols during the coexistence period between ISO 20022 & MT. The use of incorrect message types may lead to a message being aborted by the Transaction Manager. Additional clarification on how the abort process will work is expected in 2022.

4. Structured party and agent data will become mandatory in cross-border payment processing and should be considered as critical requirement in banks' ISO 20022 migration projects. Banks should begin planning for the usage of structured party and agent data with 2023 as a target timeline. This planning should include both reviews of existing data sets, processing and data management capabilities and the opening of front-end channels for data capture. Additionally, banks should be educating all clients types and encouraging them to start using structured party information. For details, please refer to https://www.swift.com/swift-resource/234447/download

5. If translation applications are used (in-house or vendor solutions), CBPR+ translation rules must be applied (ensure the vendor is certified). CBPR+ translation rules are available at myStandards : https://www2.swift.com/mapping/#/

   To avoid proliferation of ad hoc/in-house translations, it is strongly recommended to leverage the SWIFT central Inflow translation (ISO 20022 to MT) and process the embedded MT in the multiformat ISO 20022 message received. The embedded MT message should serve the non-ISO 20022 ready institutions as a basis for subsequent processing including the generation of the next leg of the payment in MT.

6. Cross-border payments initiated in ISO 20022 which include enhanced data that are subject to clearing and settlement via a Market Infrastructure which is not fully ISO 20022 enabled yet, are likely to lead to data truncation. To avoid any loss of data, ISO 20022 initiated messages into those markets should, where possible, consider the local limitations and be limited to "Like for Like" data. Financial Institutions currently acting as intermediary in each market are strongly requested to raise awareness of local limitation and discourage usage of extended information to avoid loss of data. Clear definition of specifications and harmonized guidelines are key to guide the market through this period of uncertainty and change

   However for those cases when extended ISO 20022 is sent by Corporate clients:

   - it is critical for the local community to apply the CBPR+ translation rules including the truncation sign and mapping conventions (i.e. the use of specific codes for the identification of the data following i.e. /ULTB/ to identify the ultimate creditor)

   - Market Infrastructures that have not migrated to extended ISO 20022 by Nov 2022 urged to take responsibility & leadership and proactively work with their communities to address the local interoperability risks.

7. Returns must be initiated in accordance with the respective standard (pacs.004 in ISO 20022 or MT103/RETN/ or MT202/RETN/). In case of a break of schema such as a return being initiated via MT103/RETN/ following the receipt of a multi-format pacs.008, correct referencing is key to allow the

receiver to reconcile the return correctly. Returns must therefore follow strictly the CBPR+ mapping guideline for subsequent processing due to be published myStandards in due course.

Reporting :

8. Unlike the limited FIN MT900/910/940/950 messages ISO 20022 reporting messages, such as camt.053 and camt.054 are very rich in structure and information. Meaningful translation is therefore not possible. While camt messages are recognized as the standard for account owners to receive full reporting of ISO 20022 transactions, the account owner or message recipient should not be pressurized to receive full ISO reporting (including Nostro Reporting camt statements) messages until they are capable to consume the richness of these messages in their nostro reconciliation/liquidity management application. Reporting messages in ISO 20022 such as camt.052/053 and camt.054 are acknowledged to be used between a service provider and a service user (customer). The service provider must expect to continue serving their clients with MT messages until the service user (customer) is ready to consume ISO 20022 for reporting. This is particularly critical for statement messages (MT940/950 and camt.053) and therefore the message to be used should be agreed between the respective parties. Equally, recipients that require the full ISO reporting for any reason should leverage camt reporting as the means to obtain this information rather than requesting the information to be provided manually.

Important Note: All CBPR+ messages on FINPlus require an RMA. Unlike MT category 9, reporting messages in ISO 20022 (camt.) require the establishment of a bilateral RMA. In case financial institutions agree with their customer to use ISO 20022 camt messages for reporting (such as camt.054 the "Bank to Customer Debit Credit Notification" or camt.053 the "Bank to Customer Statement") they must establish the RMA business profile for reporting.

Exceptions & Investigations

9. Request for cancellation must be initiated in accordance with the respective standard (camt.056 in ISO 20022 or MT192 or MT292). In case of a break of schema such as a request for cancellation being initiated via MT192 following the receipt of a multi-format pacs.008, correct referencing is key to allow the receiver to reconcile the cancellation request correctly. Cancellation requests must therefore follow strictly the CBPR+ mapping guideline for subsequent processing due to be published on myStandards in due course.

10. ISO 20022 standards for Exceptions and Investigations (except for camt.056 & camt.029) are still under review by the global industry and expected to be deployed end of 2023 only. Banks must continue processing exceptions and investigations using the legacy FIN MT messages. To facilitate a smooth processing of investigation cases related to a payment, usage of critical references is key. A guiding document is in the process of being developed and due to be published on PMPG's document centre in the coming weeks.

Communication:

11. **Payment Market Infrastructures (PMIs), local Central Banks and Payments Associations** are strongly encouraged to raise awareness on the global ISO 20022 migration and urge the necessary sense for "need to action" in their community.

HOW:
- Engage with other industry groups PMI summit, HVPS+ and peer MI operators to exchange and align on best practices and timing

- Take the lead and call for action to guide the local industry to success in global cross-border payments

- Consider education workshops with key stakeholders (such as SWIFT Standards, SWIFT User Groups, local CBPR+ mirror groups, local banking and payment associations with the regional PMPG representative)

- Proactively work with their communities to address the local interoperability risks. Clear definition of specifications and harmonized guidelines are key to guide the market through this period of uncertainty and change (the work done by the Bank of England and the UK community may serve as a reference document)

- Ensure that the local / domestic rules are aligned with CBPR+ guidelines for elements required for both, domestic and cross border, throughout and beyond the coexistence phase (e.g. no longer accept unstructured customer addresses after November 2025).

12. **Financial institutions,** if not started yet, must understand the consequences of the ISO 20022 migration deployment in November 2022 and prepare to support their own and their client's transition towards ISO 20022.

HOW:
- Understand the implications and responsibilities of receiving multi-format messages (ISO 20022 with the embedded MT equivalent)

- Understand the implications of SWIFT's Transaction Manager moving away from pure messaging to transaction orchestration safeguarding the payment end-to-end based on a specific rulebook

- Understand the need for migration of unstructured to structured customer data within their institution

- Engage with MI's and peer banks to agree on a common roadmap and to adopt best practices

- Engage with their end clients to explain impact on them (customer inventories / ERP systems)

- Engage with Software Providers to explain impact on their communication channels with their payments service provider(s)

- Engage in industry discussions and start the dialogue with their correspondents

Recommended sources for information and training:
SWIFT ISO 20022 Program
ISO 20022 Training
SWIFT Adoption Guide
CBPR+ Usage Guidance, Translation Rules, User Handbook and more
PMPG Market Guidance:
Guiding principles for screening ISO 20022 payment-
Market Infrastructure Migration Strategy