Timeline and Coexistence Challenges

Major market infrastructures such as SWIFT, the Eurosystem, EBA, The Clearing House, the Federal Reserve and the Bank of England have communicated plans to migrate to ISO 20022 between 2022 and 2023.
The overall migration of the industry is now expected to begin in the UK with the CHAPS like-for-like migration currently scheduled for the spring of 2022, and then to the fully enriched schemas in February 2023. The CHAPS changes are followed in short order by the migration of the EUR Payment Market Infrastructures (T2 and EBA Euro 1) and the go-live of the enhanced ISO 20022 messages on the SWIFT network in November of 2022. The USD clearing systems are expected to follow suit a year later, although firm dates have not yet been finalized. All of these major market infrastructures have adopted a big-bang migration approach.

The resulting staggered migration timelines create a multi-year coexistence phase that extends until 2025, thus challenging interoperability in the global payments networks for several years. Also at risk is therefore the ability for data to travel seamlessly with the payment from the instructing institution up to the beneficiary bank.

Significance of the SWIFT Timeline:

The new SWIFT timelines mandates that all banks on the SWIFT network be able to receive and process ISO 20022 based payments (MX messages) starting in November 2022, one year later than originally planned. This marks the beginning of the global co-existence phase, during which banks can use both the MT and MX messages for payments and related cash management messages (i.e. SWIFT FIN Cat. 1, 2 and 9 and ISO 20022 equivalents). At the same time it published the updated migration timeline, SWIFT also communicated a new vision for the network’s messaging strategy which is meant to improve transparency and compatibility. Further details on how these goals will be achieved will be communicated later in 2020 and might impact the coexistence scenarios outlined in this summary.

The revised timeline published by SWIFT still targets a sunset date of November 2025 for the MT payment messages. All member banks must be able to send payments in ISO 20022 by that time.

The Bank of England’s most recent plans affirm a migration of CHAPS in the spring of 2022, most probably in June, on a “Like for Like” basis. Migration to Enhanced ISO 20022 is then foreseen for the first quarter of 2023.

All other institutions around the world should anticipate that later that same year, in November 2022, when SWIFT and the EUR Clearing infrastructures follow, some of their counterparties will begin using the MX message capabilities for cross-border payments, including in currencies other than GBP and EUR. The adoption is likely to be partially triggered by a desire of banks in early-adopter markets to achieve technical consistency across all their cross-border payments. This trend may accelerate the usage of ISO 20022 messages for currencies that have a later migration date, such as USD, due to data mapping difficulties between SWIFT MT and MX messages.

The challenges of co-existence:

A key benefit of the ISO 20022 standard is the richness of the data supported as well as the high level of granularity and structure of the message elements that are materially superior to what is currently supported in SWIFT MT messages, even in their structured options.

As demonstrated in Figure 1 below, the full information on the originator of a payment as received in a SWIFT MX message cannot be mapped into the corresponding fields of a SWIFT MT message without material loss of data.
**Table:**

<table>
<thead>
<tr>
<th>ISO 20022 Debtor data element example</th>
<th>Customer data record example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>CHRIS EVANS AND ROBERT R DOWNEY JUNIOR THE SECOND FAMILY OFFICE</td>
</tr>
<tr>
<td>Street Name</td>
<td>MUDDAFARGANU-CHITOSI-RAMGANU ROAD</td>
</tr>
<tr>
<td>Building Number</td>
<td>123</td>
</tr>
<tr>
<td>Building Name</td>
<td>ANCHOR TOWER 3</td>
</tr>
<tr>
<td>Floor</td>
<td>25TH</td>
</tr>
<tr>
<td>Room</td>
<td>5003</td>
</tr>
<tr>
<td>Post Code</td>
<td>3622</td>
</tr>
<tr>
<td>Town Name</td>
<td>PASHCHIM KHERIHAH AL</td>
</tr>
<tr>
<td>Country Sub-Division</td>
<td>CHITTAGONG PROVINCE</td>
</tr>
<tr>
<td>Country</td>
<td>BD</td>
</tr>
<tr>
<td>IBAN</td>
<td>S49300YSRVGU43R0Q0M07</td>
</tr>
</tbody>
</table>

**Figure 1: Example of payment originator information in MX and MT messages**

(source: PMPG/SWIFT)

Similar situations can occur with other fields, for example those carrying information on other parties of a transaction or Structured Remittance Information, thus leading to the potential for substantial loss of information when converting payments between formats.

Additionally, the ISO20022 payment format for customer transfers between banks (pacs.008) provides for parties that do not exist at all in the corresponding SWIFT MT message (MT103): the ultimate debtor and ultimate creditor. These are used to identify actors of the underlying commercial transaction that ultimately owe or are owed the funds settled by the payment – whereas the originator and beneficiary fields of a SWIFT MT103 (Fields 50a and 59a) and their equivalents in the SWIFT MX message (Debtor and Creditor) represent the respective owners of the accounts used for the transfer of funds.

The absence of those ultimate party fields in SWIFT MT103 messages can lead to loss of data that may be important for the receiver of the payment (the creditor/beneficiary) and more critically to the potential truncation of important information for the compliance validations of the financial institutions handling the payment.

While the examples above reference the mapping challenges between ISO 20022 and the legacy SWIFT MT formats, similar challenges may exist when ISO 20022 formatted payments are mapped to clearing systems that use proprietary formats such as CHIPS and Fedwire in the US.

**Impacts of Data Truncation Issues for Banks**

*For Beneficiary Banks:*

As noted earlier, all member banks must be ready to receive SWIFT MX payment messages starting in November 2022. When banks receive instructions for their own clients, they will need to evaluate the impact of potential data truncation scenarios if their payment infrastructures cannot handle the incremental data load and structure of an ISO payment. This needs to take into account for the impact on service quality as well as potential compliance and regulatory implications.
For Intermediary Banks (Correspondent Banks):

Banks that routinely act as correspondent banks for other financial institutions must also evaluate their legal and regulatory obligations with respect to passing on full payment details as received to the next bank in the payment chain. This is particularly challenging when the local payment market infrastructure format does not permit easy mapping of rich structured data. Early engagement of the local community is highly recommended to evaluate impacts and develop best practices for the local market.

Planning for the Co-Existence Phase in the US

The impact of data truncation issues also applies to banks operating in the US where the CHIPS and Fedwire migrations to ISO 20022 are not expected to occur until possibly late 2023.

The US banking industry anticipates receiving ISO 20022 payment messages with rich and structured data starting in November 2022 and is therefore in the process of considering interim solutions to avoid material truncation of sensitive data. These efforts are motivated by the effort of the community to remain in compliance with FATF guidelines and US regulations requiring transmission of full details of the originator and of a payment.

While these efforts are still on-going, the impact of a mapping solution in the US will be that banks receiving payment messages in USD from their US correspondents might also have to expect to occasionally receive ISO 20022 payment messages from their US banks. This would likely be the case where a correspondent receives a payment instruction through CHIPS or Fedwire that includes data originally mapped from an ISO 20022 payment and which cannot be fully transmitted in a SWIFT MT message by the receiving correspondent.

SWIFT Solutions for Co-existence

SWIFT recognizes the challenges of the ISO 20022 transition for the entire community and has developed a range of MX><MT translation solutions to align to a variety of migration strategies ranging from central services hosted by SWIFT to on-site solutions.

While those solutions may ease the complexity of the migration effort for certain institutions or enable them to focus on other development areas first, it is important to note that the issues related to data truncation remain. SWIFT’s solutions will highlight situations where truncations occur and banks receiving such messages must develop an approach to deal with the scenarios that they might encounter.

Also as noted earlier, further details on how SWIFT’s new messaging strategy might impact the coexistence requirements will be communicated later in 2020.

CBPR+ and PMPG Market Practice Guideline on Structured Customer Data

Banks should also be aware of the Cross-Border Payments and Reporting Plus (CBPR+) market practice recommendations published by the Payments Market Practice Group (PMPG). The PMPG is an independent advisory group to SWIFT that brings together payment subject matter experts from banks in Asia-Pacific, EMEA and North America, and acts as a forum to drive better market practices that, together with correct use of standards, will help to achieve full straight-through-processing (STP) and improve customer service. In the context of the industry’s migration to ISO 20022, the CBPR+ was created in support of the PMPG as a working group to develop global usage guidelines for the standard for the SWIFT community.

The CBPR+ guidelines stipulate that if a payment is initiated ISO 20022, effective with the start of the co-existence phase in November 2022, it is highly recommended to use a structured address for the Debtor and Creditor. Structured address for both Debtor and Creditor will subsequently become mandatory from November 2025.
Additionally, the first guideline noted in the PMPG's market practice guidelines on Structured Ordering and Beneficiary Customer Data in Payments\(^2\) focuses on the structured customer data in payments benefits, setting the goal for the banking community to sunset the unstructured data fields for originator and beneficiary information in November of 2023, which coincides with the original full ISO migration date of US market infrastructures which is still being reviewed though.

Banks should be mindful of these market practice recommendations when developing their migration strategies even though they are not presently firm and mandatory requirements. We anticipate a significant amount of attention from the banking community, clients and supervisory bodies to developments in this particular area.

**High Value Payments Plus (HVPS+) Guidelines for Market Infrastructures:**

While one key benefit of ISO 20022 is the data richness and flexibility of the format, the industry also realized that these harbor the potential risk for gradual divergence of the ISO variants and versions used by various market infrastructures around the world. In a globally interconnected payment ecosystem, long-term, sustainable alignment and interoperability are essential to realize the anticipated benefits of the ISO 20022 implementation.

SWIFT, key Payment Market Infrastructures and a number of large banks have been cooperating since 2016 to develop market practice recommendations for the implementation of ISO 20022 by clearing systems around the world known as HVPS+ guidelines. Similarly to CBPR+, the HVPS+ initiative is sponsored by the Payments Market Practice Group.

Despite the efforts around alignment however, banks that are direct members of the market infrastructures moving to ISO 20022 over the next few years will have to consider the HVPS+ guidelines for their direct clearing activity in addition to the CBPR+ guidelines for SWIFT messaging in the correspondent banking domain, adding to the overall complexity of their migration programs.

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