

ISO 2022 MIGRATION FOR THE AUSTRALIAN PAYMENTS SYSTEM – ISSUES PAPER – RESPONSE TEMPLATE

Name/Organisation: Australia and New Zealand Banking Group Limited

Organisation Category: RITS Member

About these consultation questions:

Primarily the focus of these questions relate to direct participants in Australian payment systems and will not be applicable to all that wish to respond to this public consultation. Notwithstanding this focus, the RBA is open to receiving comments from all respondents and invites general comment in the last question.

2.4 Objectives of an ISO 2022 migration for payments in Australia

Q1. Does your organisation currently support ISO 2022 for payments and reporting messaging?

- Yes
 No

If yes, what payment systems and/or associated activities are currently supported? If no, what plans does your organisation have to support ISO 2022 by 2024?

ANZ currently supports ISO20022 for NPP Payments. We also have the capability to receive ISO20022 formatted messages from customers through ANZ wholesale payment channels, and translate these for consumption by our payment processing systems.

We plan to fully support ISO20022 in line with SWIFT timelines for MT to MX migration.

Q2. Does your organisation provide or use inbound and/or outbound correspondent banking services?

- Yes – cross-border inbound
 Yes – cross-border outbound
 Yes – both inbound and outbound cross-border
 No

Q3. Are there any other objectives that your organisation believes the Australian financial industry should look to achieve as part of an ISO 2022 payments migration?

- Yes
 No

If yes, please explain your views.

Section 4 of the consultation paper indicates the opportunity to consider the optimal long-run design of Australia's payments system. We think that the migration to ISO20022 should be considered as part of a strategic review of how the payments system, its clearing streams and infrastructure could and should evolve over the next 10-15 years.

A critical objective of any migration is the facilitation of global interoperability. The implementation of ISO20022 should adopt an international message harmonization standard (e.g. HVPS+) so that the version of the messaging used will be globally interoperable.

Global interoperability would also mean that the domestic implementation of ISO20022 would be supported by many of the wholesale platform providers and global accounting and finance software packages used by banking customers. This would avoid the need for participant members to perform significant translation.

A challenge with achieving both domestic and global interoperability is the variation in versions and standards for ISO20022. There is currently variation between global and NPP standards. The RBA should consider whether the version and standards of ISO20022 adopted for NPP should be adapted for greater alignment with international ISO20022 standards. This would enable easier contingency arrangements between systems. The amount of variation between standards will determine the extent to which messages need to be translated and potentially truncated. Translation and truncation would reduce the benefit to the customer of the migration and increase complexity and challenges in meeting regulatory reporting requirements (refer response to Q4 for greater detail).

2.5 Risks and challenges

Q4 a) Do you have any comments on the high-level risks and challenges of payments messaging migration to ISO 20022 outlined in Section 2.5?

- Yes
 No

If yes, please provide your comments under the relevant risk/challenge: prioritisation against other initiatives, business case approval, project horizon and cross-border migration.

We would raise several risks and challenges for the RBA's consideration:

First, the appropriate prioritisation of various initiatives, including the migration towards ISO20022, may be hindered by lack of a clear industry roadmap that indicates when and how various initiatives will occur and towards what end. Sequencing of the initiative relative to others would be clarified in the context of a broader project concerning the modernisation, and potentially consolidation, of the payments system (see response to Q3).

Second, inward-onward messages may be truncated through the RTGS system when an intermediary receives cross border SWIFT ISO20022 (MX) messages in ISO20022 format. This may introduce business and AML risk if all truncated details are not transmitted to the recipient. Industry wide market practices to ensure ISO20022 messages can flow through the Australian RTGS system are essential to enable a quality transition and migration.

Third, like SWIFT, the RBA will need an approach for coexistence of multiple message formats until inward cross border clearing is fully migrated to ISO20022.

Q4 b) Are there any other major risks and challenges that you believe need to be considered?

- Yes
 No

If yes, please explain your views.

There is a risk that core vendor applications (eg sanction filters, payment engines, fraud, limits, accounting) implement the standards differently across different jurisdictions and industries, could lead to misalignment between the Australia and international implementations.

We would encourage the RBA to engage with Austrac and DFAT, including on:
- Guidelines on IFTI reporting (cross border payments)

- Rules on truncation of data when moving to ISO20022 messaging format
- Guidelines on sanctions screening, and IFTI reporting, of emojis and non-Latin characters
- Guidelines on expectations during parallel runs when some financial institutions are on MX and others are on MT

Q5. For your organisation, please consider each risk and challenge outlined in Section 2.5, and list any others you have identified in Q4 b). Please rate each risk/challenge for your organisation according to the scales for likelihood (rare, possible, likely, almost certain, certain) and consequence (insignificant, minor, moderate, major, catastrophic). Please rank each risk/challenge by the difficulty they pose to your organisation, with 1 being the most difficult.

Risk/Challenge Item	Likelihood	Consequence	Difficulty
Prioritisation against other initiatives	Rare	Major	6
Business case approval	Rare	Major	6
Project horizon	Rare	Major	6
Cross-border migration	Possible	Major	3 – depends on mitigant
Systemic risk due to migration of HVCS	Possible	Moderate	4
Risk of Compliance/Screening Failures	Likely	Major	3 – depends on mitigant
	Choose an item.	Choose an item.	
	Choose an item.	Choose an item.	

The risk and difficulty ratings listed are based on what we know today of the MT to MX translation mapping, market practice and timeframe for transition. Depending on the mitigants agreed by the industry and implemented, residual risk may be lowered.

3.1 Australian payments, clearing and settlement systems

Q6. Which, if any, of the messages categorised as “Other messaging that could be migrated”, should be included as part of an ISO 20022 payments migration? Are there any that you think could potentially form part of a later stage of migration?

	Yes	No	No View	Later Phase
Direct credits and debits (direct entry (DE)) clearing messaging	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RITS Low Value Settlement Service (LVSS) settlement messaging	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer to financial institution/financial institution to customer messaging	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please explain your views.

We would not support the migration of any additional messaging types until the industry examines the capability required across the payments system, and considers the functionality that would need to be built or

migrated (see response to question 3). Timing of any additional migration or enhancement must be appropriately staggered to allow focus on the SWIFT and potential HVCS migration to ISO 20022 by 2024/25.

Q7. Do you have any other specific feedback you wish to provide on the overall ISO 20022 payments migration scope?

- Yes
 No

If yes, please explain your views.

We recommend the RBA also consider the following issues:

a) Use of structured and unstructured messages. We note that SWIFT's current planning is to allow unstructured messages during the coexistence period but from 2025 messages must be structured.

b) Version of ISO20022. At a recent Payment Market Infrastructure Summit, some of the global central banks, including the US and UK, agreed to use the 2019 version of ISO20022 until 2023, and review at this point. Australia needs to consider the global approach when determining which ISO20022 version to adopt.

Q8. For organisations that use the RBA's AIF reporting and enquiry service, what are your initial views on a replacement solution to modernise this service? For example:

- Develop ISO 20022 messaging
 Develop an RBA Application Programming Interface (API) service
 Other

Please explain your views.

We would support further exploration of both a migration to ISO20022 messaging and development of an API service. A number of factors would contribute to a decision either way, and we would encourage the RBA to consider the need for a possible replacement solution as part of a broader strategic review.

3.2 Possible message enhancements

Q9 a) Please provide your views on whether to include each of the enhanced content items proposed in this paper in Section 3.2.

Enhancement	Include	Views
Payment Purpose Codes	<input checked="" type="checkbox"/>	Our recommendation is that any enhanced content (including Purpose Codes, Identity Information, LEIs, Remittance, IBAN, enhanced character sets) is aligned to International harmonization standards (HVPS+). This is something the industry needs to work up to in a feasible timeline. While the objective is to align to CBPR+, it may be that this is a significant challenge for coexistence.
Identity Information	<input checked="" type="checkbox"/>	
Legal Entity Identifiers (LEIs)	<input checked="" type="checkbox"/>	
Remittance Information	<input checked="" type="checkbox"/>	
International Bank Account Number (IBAN)	<input checked="" type="checkbox"/>	

Q9 b) What other enhanced content considerations would like to see included as part of the migration project? Please explain your views.

The Consultation suggests that in addition to clearing messages, there are possible efficiency benefits in widening the project scope to include the standardised use of ISO 20022 payment exception and investigation messages between participating institutions. We would suggest that these messages should also be migrated along with the payment message to ensure enquiries can be effectively managed end to end.

4.1 Long-run payment system design considerations

Q10. Do you agree with the view that it is appropriate to maintain a dedicated HVPS alongside other payment systems, including the NPP?

- Yes
 No

If no, please explain your views.

In considering the long-run design of the payment system, the consultation paper highlights some significant issues with a migration of HVPS to NPP, concluding that maintenance of a separate system is the preferred approach. ANZ understands that this may be the most pragmatic solution in the short term, however, as the RBA considers its approach we would make the following points:

First, while business rules, including processing arrangements and operating hours, for Australia's high value systems are different to those for the NPP, this is not a reason to rule out the use of NPP infrastructure to process at least a portion of the RTGS/HVCS traffic. Instead would encourage the consideration of a separate framework of business rules and functionality, as well as regulatory policy for NPP outside of low value high volume real time processing.

Second, we appreciate that some smaller Australian domestic participants may not be able to justify the value of participating in NPP due to the cost and competing organisational priorities. This limits the reach of NPP. If a single piece of infrastructure were used, this could result in greater focus on developing and enhancing that infrastructure and help justify the cost of the infrastructure to smaller institutions. This could encourage greater adoption of NPP.

Third, resilience in the payments system is essential as we move towards a digital economy. However resilient payment infrastructure could be delivered without maintaining two sets of infrastructure if there is sufficient capacity and redundancy in the infrastructure that is used.

Q11 a) Does your organisation have any other views or preferences on how the long-term design of the Australian payments system should evolve?

- Yes
 No

Q11 b) If yes, how does choice of settlement method and system resiliency factor into this view?

We would note that choice in settlement method does not necessarily equate to choice in service proposition. Multiple settlement frameworks, business rules and functions could potentially sit on a single piece of infrastructure. It is possible to achieve resiliency and redundancy without the need to maintain two separate systems.

Q11 c) From your organisation's perspective, what other long-term design considerations should be factored into this migration project? Please frame your response from a strategic standpoint rather than focus on any short-term challenges or required investment.

A strategic vision for Australia's payment system is required to effectively assess the utility of our existing clearing systems in comparison to newer clearing systems such as the NPP. A clear direction will enable participants to ensure that customer expectations in relation to payment capability, timeliness and speed continue to be met and enable the industry to effectively prioritise developments to ensure payment system stability and optimal customer outcomes.

Collaboration is required amongst key industry bodies such as the APC, RBA, AusPayNet, NPPA, BPAY and EFTPOS to define and deliver this strategic vision. The Australian Payments Council, as the strategic oversight body for the payments system, has defined a set of four 'desirable characteristics of the payments system.' With these characteristics as guidance, the Australian Payments Network, alongside NPPA, as self-regulatory body and owners of the existing Australian payments frameworks, is well placed to lead the industry in collaboration with the RBA and other industry bodies (BPAY, Eftpos) to define a vision and roadmap for the payments system. This work was highlighted by the APC in their consultation paper earlier this year, and is well timed to fit in with the RBA's ISO20022 consultation.

4.2 RTGS message exchange models

Q12. If a separate high value clearing system is maintained for the ISO 20022 payments migration, what is your organisation's preference on the RTGS messaging model (i.e. Y-Copy or V-Shape) that should be adopted?

Please explain your views.

Use of Y-Copy should form the foundation for future design, as it segregates financial settlement from message content and the associated responsibility for data integrity and compliance.

V-Shape would mean RBA has access to all payment data, which may have potential implications for privacy and screening obligations.

5.1 ISO 20022 migration approach

Q13. Does your organisation agree with the proposed high-level stages of the ISO 20022 payments migration project?

- Yes
 No

Please explain your views.

At a high level, the stages are appropriate. However, we would reiterate our preference for the migration to occur within the context of a strategic vision for Australian payments (see response to question 3).

Q14. Taking into account the advantages and disadvantages of each migration option, which approach do you support?

- Option 1 – Like-for-like followed by adoption of enhanced content
- Option 2 – Direct migration to enhanced content
- Other

Please explain your views.

Should the strategy and plan allow for it, the industry should consider adopting the US phased approach of first cleaning up content, then migrating format and finally enhancing format. This would simplify the migration, separating changes in content from changes in format.

Australia needs to consider potential changes to requirements on banks dealing with the European Central Bank to use structured fields. A move to structured customer data should be considered a pre-cursor to ISO20022 migration (supported at the SWIFT board in March where it was recommended that payments data quality “be addressed before the ISO20022 migration”), and something we should consider as we begin to formulate our plans for the coming years.

5.2 Managing the transition to new messages

Q15. What is your organisation’s preferred approach for transitioning between existing message formats and ISO 20022?

- Big-bang
- Coexistence

Please explain your views.

In the event that migration to ISO20022 is the agreed way forward, a “big bang,” direct migration approach is unlikely to be feasible or palatable without a compelling reason. If this is the case, the industry and RBA must define a clear plan for coexistence of message types, taking into account the content considerations highlighted in response to Q14.

5.3 Project timing

Q16. Does your organisation face any impediments or constraints that are evident at this stage that would limit your ability to migrate to ISO 20022 within the 2024 target timeframe set out in this paper?

- Yes
- No

If yes, please explain.

The ISO20022 migration should, where possible, align to SWIFT timelines as both initiatives will also need to accommodate any broader impacts including changes to customer processes and systems, and regulatory changes.

Q17. Are there other international ISO 20022 initiatives that you consider the Australian ISO 20022 payments migration timeframe should be aligned to? E.g. large domestic implementations in other jurisdictions.

Please explain your views.

In the same manner as the SWIFT ISO20022 migration, the RBA should be encouraging a market wide adoption timeframe. A clear scope of the clearing streams should be considered and how this would align to the overall industry roadmap.

Q18 a) Is your organisation affected by the timing of SWIFT's ISO 20022 migration for cross-border payments?

- Yes
 No

Q18 b) If yes, are there benefits to aligning the migration of domestic AUD payments messaging to cross-border payments migration for your organisation?

Yes. See response to Q17.

5.4 Message harmonisation

Q19. Do you support the HVPS+ developed message guidelines being used as the starting point for the development and implementation of new ISO 20022 standards for Australia's HVPS?

- Yes
 No

Please explain your views.

We support the principle of following a ISO20022 standard such as HVPS+ as a starting point for standardisation of guidelines.

Q20. To what extent should other ISO 20022 standards for payments messaging (e.g. those used for the NPP) be considered?

Please explain your views.

If a decision is taken to maintain a separate High Value System, the ISO20022 standards should be consistent across domestic clearing streams to enable use of an alternative stream as a contingency. This may pose some challenges in the case where NPP ISO20022 is not aligned to international standards.

Q21. Are there any other areas of work that you believe are relevant in looking to achieve message harmonisation (to the extent possible)?

Please explain your views.

Not at this stage.

6.1 Governance

Q22. Does your organisation have a preferred governance structure?

Please explain your views and include your preference for the roles of different parties in that governance structure.

We envisage a governance model whereby:

- a. the APC/PSB co-sponsor the initiative and set the high level objectives for the payments system in Australia
 - b. AusPayNet and NPPA work with the RBA and the industry in setting the roadmap, design and implementation plans
 - c. Project Steerco is made up of a subset of AusPayNet and NPPA members and selected representatives from RBA and other industry bodies
 - d. Under the direction of the established Steerco, past experience with design and delivery of NPP should be used as a starting point for a delivery model, applying learnings of what has/has not worked. Other industry implementation models should also be considered (e.g. establishment of RTGS) and learnings drawn.
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General feedback

Does your organisation have any general comments on an Australian ISO 20022 payments migration?

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