

## Bank of England / techUK Workshop

22<sup>nd</sup> February 2018

### Attendees:

techUK	IBM	Cisco
Unisys	SQS	Fujitsu
SAP	CGI	Bank of England
Fiserv		

### Summary

The Bank of England 'the Bank' has established a programme to renew its Real Time Gross Settlement (RTGS) service. As part of the programme's external engagement a workshop on ISO 20022 and Synchronisation was held to gain insights from vendors and suppliers of technology and software to the payments industry. Participants were invited to attend through an open call on the techUK blog; additionally techUK sent an email to its members that operate in the payments space.

### ISO 20022

The Bank introduced the key emerging conclusions from the ISO 20022 Industry Working Groups, focusing the discussion in particular on extending character sets, remittance information and transitional arrangements. On character sets, the group was positive about the central infrastructure facilitating this functionality. On remittance information the group provided feedback regarding security and compliance concerns with information housed elsewhere. On transition the group confirmed that vendors' product testing and implementation timelines had the potential to impact the ability of direct participants and corporates to implement these changes.

### ISO 20022 Data

The Bank outlined emerging conclusions on payment message content. The group discussed a number of issues:

#### Character sets

- The Bank will propose to increase the range of characters available in ISO 20022 messages. In Remittance Information fields and in Name/Address fields the functionality could be introduced to transmit additional characters at the centre. Extended characters would be both additional alphabets and special characters.
- Participants strongly conveyed the need to have extended character sets and agreed that current systems could be adapted.
- Participants acknowledged that although the infrastructure change is considered relatively minor, there are potentially significant implications for the payments industry. In particular changes required in screening software, data storage and information



transmitted from clients to participants. The Bank also discussed the need to author sanctions lists in more than just Latin characters. For example, if sanctions screening software will be expected to screen names displayed in their native alphabets, then it will need to be able to check those names against lists in these alternate alphabets. It was discussed that participants may already be expected to undertake screening in more than just Latin alphabet.

### Remittance information

- The Bank explained that ISO 20022 provides several options for Remittance Information. There have been a range of opinions expressed by different stakeholder groups. Although structured information is preferred by payment service providers, the flexibility of large amounts of unstructured information is often preferred by end-users. Further, there is the option to include links and references to information contained at an alternate location (electronic or otherwise).
  
- Discussion points;
  - Participants suggested the ability to have structured, unstructured and related remittance information. As with the character set, there should not be limitations.
  - The ability to attach an invoice would be a significant benefit.
  - ISO 20022 allows the inclusion of end-users into the chain of agents that could STP. Structured information will help in this regard.
  - Participants raised a potential security issue with attaching files – for example a virus could be embedded in a jpeg. The Bank acknowledged this concern, stressing that resilience was of paramount importance in the design of the new RTGS system. Participants flagged that possible data relating to fraud could be contained in an attachment or URL, but as most systems scan the message this may not be identified.
  - Participants noted the importance of agreeing the structure of this section of the message and defining what sections would be mandatory in the wider message. This would be needed to maintain the standard effectively going forward.
  - Participants agreed that additional remt messages would be an inefficient solution.

### Transition

- The Bank outlined that adopting ISO 20022 across the retail and high value payments systems in the UK will be a considerable change for industry to manage. Furthermore, this is happening in the context of significant domestic and international change in payments.
  
- Discussion points;
  - The change must have a clear business case for impacted parties and supporting information must be provided to facilitate a smooth implementation.



- The GDPR implications must be understood.
- Participants strongly agreed that the implementation cycle would be significant as first vendors then users would have to change. Examples from other jurisdictions were noted and the importance of engaging the wider ecosystem ie. ERP, treasury vendors etc, were stressed.
- Participants recommended a good way to encourage adoption would be to introduce a mandatory core, and then build further mandatory fields around this. The end result may be greater use of the standard and its functionality than if the full range was available the outset with limited mandatory elements.
- Participants noted that users are actively engaging with software providers already to find out what products or developments will be available to adapt to the expected ISO 20022 changes.
- Participants stressed the importance of engaging widely when developing the standard.
- The Bank also clarified that there are no overseas dependencies on its own implementation of ISO 20022. However, there is a keen awareness of the harmonisation benefits that implementation can bring, and thus the Bank is coordinating closely with other market infrastructures as they design their own implementations.

### **Next steps**

- The Bank will share a record of the meeting via techUK.
- Further information will be shared on the ISO 20022 consultation as it progresses.



## Synchronisation

The purpose of the workshop was to discuss use cases and risks as well as potential benefits of synchronisation. The outputs of the session will be used to inform design of the new RTGS service.

## General discussion

- The Bank introduced the concept of synchronisation. It was noted that the RTGS Blueprint proposed offering the ability to synchronise cash movements in RTGS with the movement of cash and assets held in other systems. Synchronisation in this context is the concept of a payment (or group of payments) settling if and only if another payment (or set) also settles.
- The Bank described three potential layers of synchronisation:
  - Synchronising payments within a domestic high value payment system (HVPS);
  - Synchronising payments in a domestic HVPS with payments or movements of assets on other ledgers in the same jurisdiction; and
  - Synchronising payments across two HVPS in different countries.
- The Bank explained how synchronisation functionality might be introduced in RTGS. A synchronisation module would co-ordinate requests for payments to be synchronised, earmark funds, and then instruct synchronised settlement of linked transactions. The Bank is currently focussing on a model where third parties operate the synchronisation module(s), but is open to using other models.
- Participants discussed the use cases for synchronisation. Several areas were highlighted, including syndicated loans, supply chains, trade finance and land or building ownership. Participants noted that processes or platforms were already in place to mitigate the risks involved in some of these payments, and they thought that synchronisation would be of most value where there is no existing central counterparty.
- Several potential benefits were identified. These included the reduction in credit risk needed to process certain payments, which could lead to increased competition within the payments industry.
- Participants also highlighted potential risks. This included the need to consider the impact on banks' liquidity. And the need for the Bank to drive organisations to adopt the functionality if introduced.
- Participants discussed regulatory and legal questions that would need clarifying before synchronisation could be introduced. For example, the need to consider the impact on data protection, particularly in cross-border cases.
- The Bank will continue to investigate the case for introducing synchronisation functionality. The Bank will follow up with workshop attendees for further detail on some of the use cases raised. Similar discussions may be organised in the future once thinking on this topic has progressed.