ISO 20022

Readiness Handbook:
FI Customers (including Banks and NBFIs)

1 Nov 2022

HSBC

Together we thrive

Table of Contents

We have created this guide to support you through the transition to ISO 20022, and the significant changes this will bring across the payments industry, how and why these changes will happen, and the benefits they can bring.

Be ready for Change:
ISO 20022 is coming
in March 2023

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The Basics

ISO 20022 is an established and flexible standard for exchanging electronic messages between financial institutions, market infrastructures and end users, providing a structured format with room for additional payment related information.

Already the common language of choice for real time and low value / domestic schemes, ISO 20022 will become the de-facto standard for high value and priority payments in the domestic and international space. The migration will provide a new model for the global exchange of payment data, with richer and higher quality information than the existing standards. This will also be an enabler for future development and innovation in the payments ecosystem.

ISO 20022 is being adopted by SWIFT in their latest move to ensure optimal cross-border payment communication. The SWIFT ISO adoption programme begins on 20 March 2023, and will take place until November 2025; by which all major global payment infrastructures plan to adopt the standard. SWIFT plans to migrate all Customer and Inter-bank payments, as well as related advice and statement messages from the MT1xx, MT2xx and MT9xx series of messages to, the new XML based pacs (payments clearing and settlement) messages and camt (cash management) statements and advices.

Existing Messaging Languages

Various non-unified message types. Often customised to cater for non-standard message content, with limited data capacity. Unable to keep up with the skyrocketing demand for data.

New ISO 20022 Messaging

Globally consistent messaging across the industry, unifying many existing standards and improving reconciliation and interoperability. Allows for a stronger structure around enriched data sets.

Potential Benefits

More than just a technology investment, ISO 20022 is the future of payment rails. Adoption of the standards aims to enable a better payment experience by driving a single industry-wide payment format with richer data, across various payment schemes. Although compliance is mandatory for all Financial Institutions, the migration brings with it a host of benefits and opportunities throughout the payments ecosystem.

Global Reach
Used for payments globally across different banks & countries, removing technology barriers

Harmonised Integration
Rationalised universal message type for all payments; ISO 20022 integrates smoothly with RTP schemes

Reconciliation
Enriched structured data supports identification and automated reconciliation

Automation
Standardised codes and dedicated message types facilitate the automation of exceptions & investigations

Security
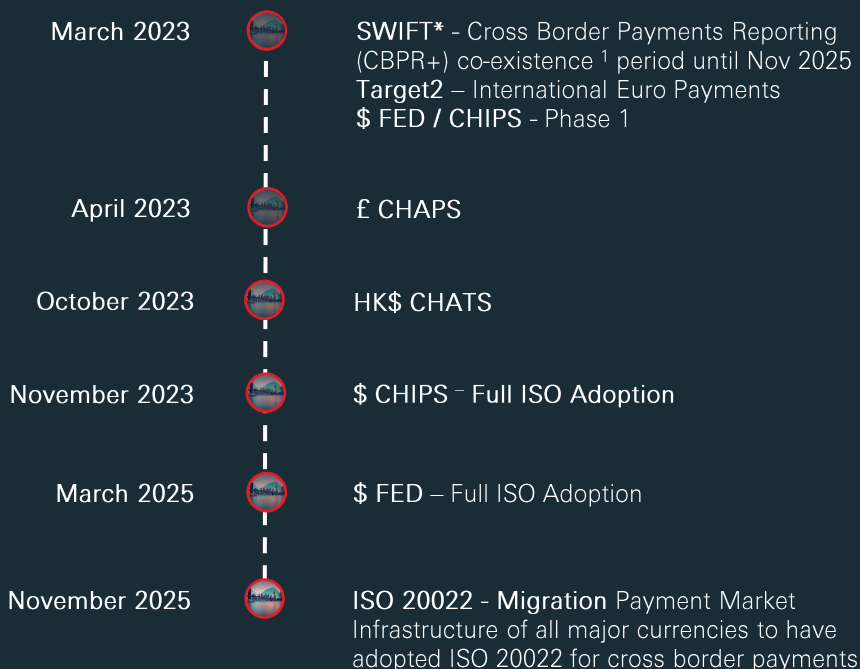Richer data can strengthen fraud and AML controls

Transparency
Increased levels of transparency and efficiency of payments through better structured data

Migration Timeline

The adoption of ISO 20022 is due to take place over several years, with Payment Market Infrastructures (PMIs) of all major currencies either live or in the process of migrating to ISO 20022 by November 2025 for cross border payments. SWIFT are due to migrate existing message type series 1, 2 and 9 starting in March 2023, with adoption plans evolving in each market.

Adoption by major Real Time Gross Settlement (RTGS) market infrastructures / currencies are currently planned as follows:

March 2023 — **SWIFT*** - Cross Border Payments Reporting (CBPR+) co-existence [1] period until Nov 2025
Target2 – International Euro Payments
$ FED / CHIPS - Phase 1

April 2023 — **£ CHAPS**

October 2023 — **HK$ CHATS**

November 2023 — **$ CHIPS** – Full ISO Adoption

March 2025 — **$ FED** – Full ISO Adoption

November 2025 — **ISO 20022** - **Migration** Payment Market Infrastructure of all major currencies to have adopted ISO 20022 for cross border payments

NB: Dates are accurate as of 1st November 2022

[1] During the co-existence period, both MT and MX messages will be supported by the SWIFT infrastructure

* Following the ECB decision to delay the ISO 20022 migration of the Eurosystem to 20 March 2023, SWIFT announced (on 27 October 2022) that they too are delaying the start of the ISO 20022 migration to March 2023 (from the originally scheduled 20 November 2022 date). You can read the full statement on SWIFT's website.

How to Prepare

As published on swift.com in the '<u>Swift platform evolution: Connectivity guidance</u>' document, all Banks are mandated to upgrade their messaging interface to support InterAct (store-and-forward) by March 2023 (previously November 2022). For institutions planning to use the API channel, a message interface is not required. You can define channel and format preferences for the transactions you receive through SWIFT's Transaction Manager platform; the platform will ensure interoperability between users of different data formats and connectivity channels. Further considerations:

Industry Testing

Get ready to participate in industry testing as mandated by market infrastructures and SWIFT. If you use another Bank for clearing, please reach out to them.

Process & Systems

Have processes and systems geared up to fulfil your Sanctions and AML controls based on new party fields in the chain.

Archive Data

Ensure that you are able to archive the rich ISO payments data as per your country regulations.

Structured Data

Start preparing to provide structured name and address information for your customers (Debtors).

Data Availability

Create solutions to make enriched data available to your customers.

Training

Training and awareness for internal staff on the new language.

For Banks* Sending / Receiving Payments to / from…

Your Currency Provider

Speak with your Currency Provider. Agree roadmap / migration timelines and expectations on message formats. (Transmitted either through SWIFT or non-SWIFT based channels).

Clearing

Be ready to send / receive and align with the clearing market infrastructure based on their timelines

SWIFT

Minimum mandate to upgrade your messaging Interface to support InterAct (store-and-forward)

*Also includes NBFIs sending instructions via SWIFT

HSBC's Adoption Plans

What are we doing?

HSBC are actively involved with SWIFT, and engaging with different market infrastructures as they migrate to ISO 20022. We will align ourselves with the market requirements and delivery timelines set by different market infrastructures, and ensure we are well placed to comply with their respective adoption strategies, including any message types in scope for domestic payment scheme migrations.

The Cross Border Payments and Reporting Plus (CBPR+) is a working group of experts nominated by the SWIFT community tasked with developing usage guidelines for ISO implementation by Banks for SWIFT cross border payments (find out more on SWIFT.com). The message implementation for Cross Border Payments will be driven by the scope of messages defined by CBPR+, baselined for March 2023

Implementation strategy - a two part approach

HSBC's adoption strategy will be driven by two different approaches:

Markets with domestic migration announced
ISO enablement of SWIFT cross border payments will be synchronised with domestic migrations in HSBC markets with domestic PMIs:
- If the country's ISO adoption starts before or at the same time as the SWIFT migration, we will first adopt ISO 20022 standards in the domestic scheme, followed by the country's SWIFT cross border traffic.
- If the PMI's adoption date is after the SWIFT migration starts, then we are exploring whether we can open up SWIFT cross border traffic in certain markets before the domestic migration / adoption of ISO 20022 standards (depending on the gap between the domestic and SWIFT migrations).

Markets with no domestic migration announced
- The approach is to complete SWIFT cross border traffic migration in all countries to be compliant by November 2025. If a market infrastructure announces a domestic scheme migration before 2025, our current migration strategies are flexible enough to adapt accordingly.

MT / MX Usage & Reporting

Messaging

From March 2023, HSBC will be ready to accept MX payment from Banks, and will continue to support Banks who want to send MT messages until the end of the SWIFT co-existence period in November 2025. During this co-existence period we may send either an MT or an MX message depending on what HSBC receives. However, once we have upgraded our systems in a particular country, we will deliver only MX messages.

Please note that HSBC will not be accepting pain.001 messages sent via SWIFT FINplus from March 2023. Exchange of pain.001 requires a specific RMA in place and existing MT 101 RMA's cannot be used. Clients are requested to continue using MT101 to fulfil their requirements. A new date will be communicated in due course once this capability is enabled later in 2023. (Any clients submitting pain.001 via SWIFT FileAct can continue to send pain.001 via SWIFT FileAct).

Statements

Depending on our client's readiness in a particular country, HSBC will be able to support either MT or MX based reporting. Our current plans are to enable enriched data statements and advices in a phased manner from March 2023. As we enable countries with camt based statements and advices, we will advise our FI customers, allowing you to enrol depending on your readiness. If you are unable to accept camt based statements and advices, we will continue to deliver MT based ones until November 2025. In compliance with CBPR+ release plans, we intend to support the following MX messages post March 2023. The list will vary by market, but we will be able to accept the following:

Pacs.008	Pacs.009 ADV	Pacs.010	camt.057
Pacs.009	Pacs.002	camt.029	
Pacs.009 COV	Pacs.004	camt.056	

We will enable receipt of camt.052/3/4 at a later date. As stated on swift.com MyStandards in the SWIFT User Handbook, the exchange of these messages has to be bilaterally agreed.

MT / MX Usage & Reporting

In a few markets we offer the option for certain NBFI/FI clients to receive an MT 103 / 202 even when the recipient themselves is the final beneficiary of the payment order i.e. no further third party. We understand the demand from clients to do so is due to the limited information that the current MT 910 advice offers. Given the rich nature of a camt.054, we are planning to deliver a camt.054 only, instead of the equivalent pacs.008 / 9 at the end of the co-existence period.

During the co-existence period we would like to provide a consistent experience for our FI clients sending us instructions in MT and ISO. For Banks providing instructions to HSBC using MX- pacs.008/9 please provide bilaterally agreed code-words as outlined in the table on the next page.

Message Format

ISO Format

Tag to be used	Instructions for Next Agent <InstrForNxtAgt>
MinLength (Min number of characters to be provided inc. / (slashes) per line	1
MaxLength (Max number of characters to be provided inc. / (slashes) per line	35
Multiplicity	[0...6]
Location of tag in pacs.008	/Document/FIToFICstmrCdtTrf/CdtTrfTxInf/InstrForNxtAgt
Location of tag in pacs.009	/Document/FICdtTrf/CdtTrfTxInf/InstrForNxtAgt

Examples - we have used /PRIO/ and /PPRO/ as examples of code words

How you send today

/PRIO/THIS PAYMENT IS A PRIORITY
//PLEASE CALL AND CONFIRM RECEIPT
/PPRO/THIS PAYMENT IS PROTECTED AND
//NO FURTHER CHARGES SHOULD BE
//DEDUCTED FROM THE PROCEEDS AND
//BENEFICIARY TO BE PAID IN FULL

How you will send during co-existence

```
<InstrForNxtAgt>
        <InstrInf>/PRIO/THIS PAYMENT IS A PRIORITY PL</InstrInf>
</InstrForNxtAgt>
<InstrForNxtAgt>
        <InstrInf>EASE CALL AND CONFIRM RECEIPT</InstrInf>
</InstrForNxtAgt>
<InstrForNxtAgt>
        <InstrInf>/PPRO/THIS PAYMENT IS PROTECTED AND</InstrInf>
</InstrForNxtAgt>
<InstrForNxtAgt>
        <InstrInf>NO FURTHER CHARGES SHOULD BE DEDUCT</InstrInf>
</InstrForNxtAgt>
<InstrForNxtAgt>
        <InstrInf>ED FROM THE PROCEEDS AND BENEFICIAR</InstrInf>
</InstrForNxtAgt>
<InstrForNxtAgt>
        <InstrInf>Y TO BE PAID IN FULL</InstrInf>
</InstrForNxtAgt>
```

The line containing the code word must be 35 characters exact in order for the next line to be considered as continuation of the last. If the length is less than 35 characters the next line will be treated as new information and code word /REC/ will be added at the start.

New code word must start in the new occurrence of <InstrForNxtAgt>. The length of the line must be 35 character exact in order for the next line to be considered as continuation of this one.

NB: If the payment is not formatted as per our recommendation we will not be able to honour the agreements and will not be liable for any fees etc. that may result.

Testing & Tools

Testing

We are in the process of finalising markets for early adoption, and are actively ramping up testing infrastructures in preparation for the SWIFT release. As we finalise our markets and testing strategy, we will be in a stronger position to communicate firm timelines and engage our FI clients for testing.

We are currently engaged in community testing in a few markets. Our ability to test will be driven by our technical readiness in each country. We are actively engaging with SWIFT, will leverage the tools they provide to Banks for testing, and we recommend our clients adopt the same.

SWIFT Testing Tools

Find out more about SWIFT testing tools in this video replay (from 17mins 00secs). Here you will find out more about i) Self Testing, ii) Testing with SWIFT including Test Sparring, iii) Testing as a Community, and iv) the use of in-flow translation and Transaction Manager (TM).

Resources

Further SWIFT implementation resources can be found on swift.com > Knowledge Centre > ISO 20022 Programme > Ensuring ISO 20022 Readiness here. This includes content such as Connectivity Guides, SWIFTSmart Training Modules, Interface and FINplus resources, as well as standards guidance on CBPR+ specifications and testing portals via MyStandards.

Industry Update

Further details on market guidelines can be found on swift.com > About us > Discover SWIFT > Community > SWIFT Advisory Groups > Payments Market Practice Group > Document Centre > Reach the document centre > SWIFT Payments Market Practice Group document centre

July 2022 PMPG update can be accessed via the following link: https://www.swift.com/swift-resource/251867/download

October 2022 SWIFT announcement to delay the start of the ISO 20022 migration to March 2023 can be access via the following link: https://www.swift.com/news-events/news/swift-accepts-community-request-start-iso-20022-migration-march-2023

Further Information

For further information on ISO 20022 plans, please visit our dedicated website here, where you will find our latest videos, as well as podcasts and answers to FAQs.

We appreciate your business, value our relationship, and look forward to working with you on the forthcoming implementation of ISO 20022 payment messages. Should you have any further questions, please engage your Sales or Integration contacts.

Yours sincerely,

Global Payments Solutions,
HSBC

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