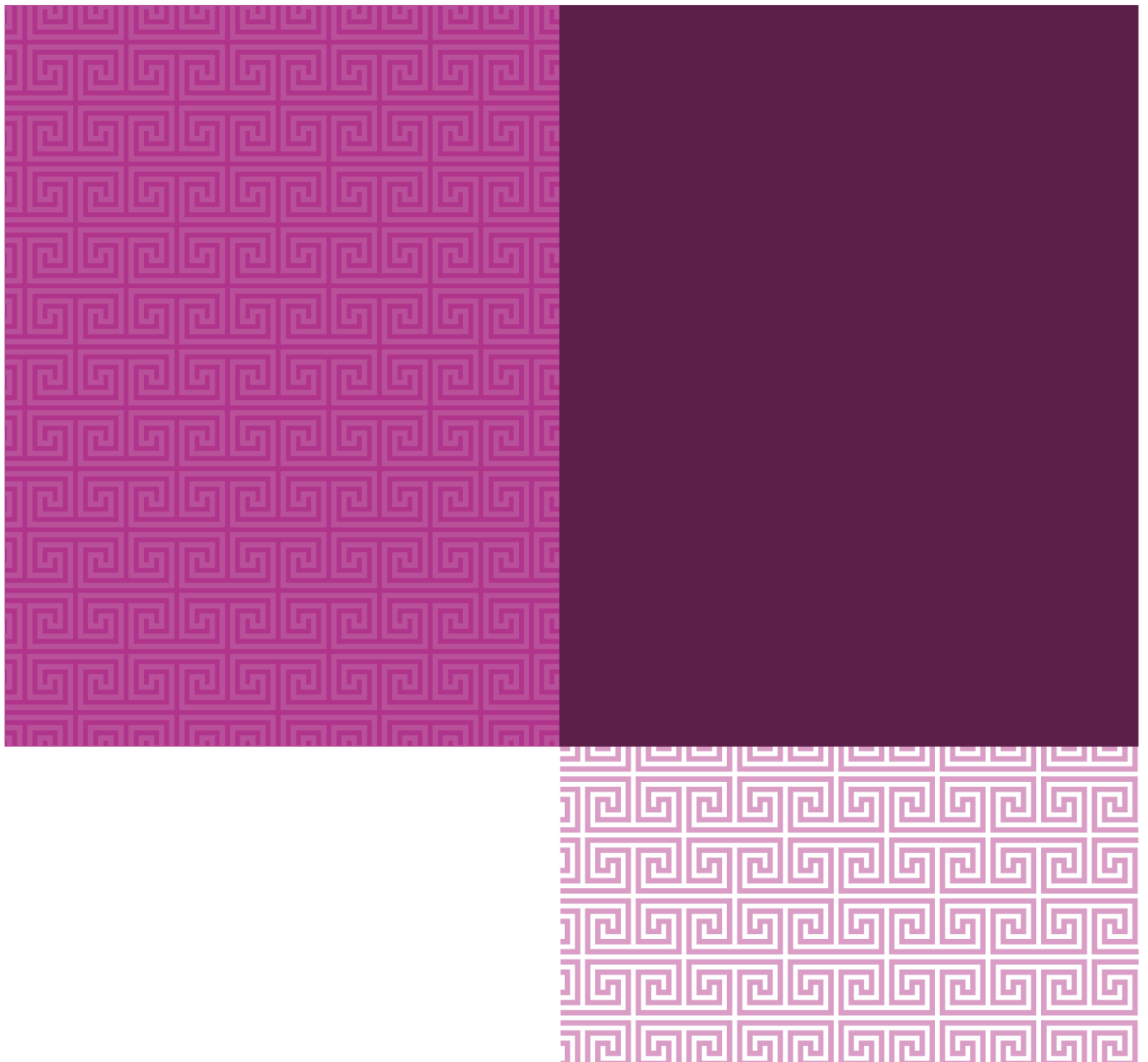




CHAPS ISO 20022 migration: implementation update

September 2019





Update on ISO 2022 implementation

The Bank is basing the renewed Real-Time Gross Settlement (RTGS) service, including CHAPS payments, on ISO 2022 messaging. Ultimately this will enable the Bank to enhance the information that can be carried with a payments message. It will also align RTGS payments messaging standards with those to be used internationally.

As noted in previous publications¹, the Bank's approach to implementation of ISO 2022 in CHAPS consists of three phases: the Preparatory Phase (Phase 1), the Introductory Phase (Phase 2) and the Enhanced Phase (Phase 3). In response to recent market developments and feedback, the Bank would like to revisit its approach to the implementation of Phase 2² - specifically on the early adoption of "enhanced" data. This document outlines two options for implementation of that phase and invites input from interested parties.

Phase 2 – compulsory changes

At the start of Phase 2 (H1 2022) all CHAPS Direct Participants (DPs) will be expected to move from using MT messaging on the SWIFT FIN network to using ISO 2022 messaging on the SWIFT InterAct network. There will be no dual running of MT and ISO 2022 messaging for CHAPS payments. During this phase, there will be no additional data requirements for messages sent – the Bank will only mandate the sending of "like-for-like" messages which will be easy to translate back to the existing MT format. This part of the approach to Phase 2 (i.e. the requirements for messages sent) is not being revisited. The Bank has published the draft schema for the like-for-like message³.

Phase 2 – options for supporting "enhanced" data

The Bank also wishes to support those DPs which are ready to send "enhanced" data (i.e. messages with data content above the minimum like-for-like requirements) during Phase 2. In the Consultation Response (linked previously) the Bank outlined one approach to how DPs could send enhanced data between each other where they are ready to do so.

Since the Consultation Response was published, other infrastructure providers have announced their ISO 2022 transition plans. In particular, SWIFT (for cross-border payments and cash reporting messages)⁴ and the ECB (for the TARGET system)⁵ will require ISO 2022 messages to be sent from November 2021⁶. This means that more CHAPS DPs

¹ Including <https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/iso-20022/iso-20022-consultation-response.pdf> (November 2018).

² The latest information on how Phase 1 and Phase 3 will be implemented can be found in previous updates.

³ See www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/iso-20022/chaps-iso-20022-migration-draft-like-for-like-schemas-review.pdf

⁴ See <https://www.swift.com/standards/iso-20022-migration-study/timeline>

⁵ See <https://www.ecb.europa.eu/paym/target/consolidation/html/index.en.html>

⁶ Both systems are planning to migrate ahead of CHAPS and neither system is planning a like-for-like phase, although SWIFT will allow co-existence of both MT and ISO 2022 messaging.

may be ready to support enhanced data at the start of Phase 2 than previously thought. In light of those developments, the Bank is revisiting its approach to the implementation of Phase 2.

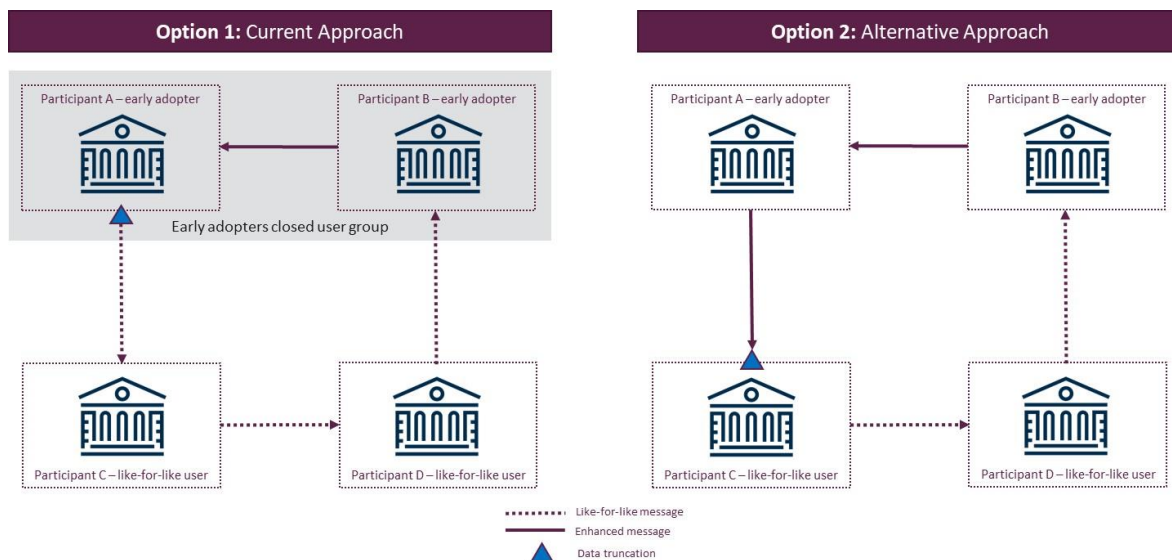
The two options which the Bank is considering are illustrated in Figure 1.

Option 1 - Current approach (as outlined in the Consultation Response): The Bank could introduce a separate, optional, Closed User Group (CUG) for those DPs that wish to send enhanced data between each other. CUG members would have to remove extra data (sending only like-for-like messages) to send to DPs outside the CUG. At a minimum, all DPs would need to be able to send and receive like-for-like data; sending enhanced data would be optional.

Option 2 - Alternative approach: An alternative approach would be to allow any DP to send enhanced data if they were ready to do so. Those DPs would not be in a separate CUG. All CHAPS DPs would therefore have to be ready to receive and process enhanced data. It would be for the CHAPS DP to decide how to set up their systems to process this data e.g. ingesting only the like-for-like fields into their internal payment systems, but separating the enhanced data for use elsewhere (e.g. in sanctions screening), or using a translation service to convert messages into an appropriate format for a temporary period. Sending enhanced data would remain optional.

The Bank will outline at a later date if and how enhanced data content under the selected option would be validated during Phase 2 – options include performing no data validation, rejecting non-compliant messages, or accepting all messages and providing regular reports to DPs on validity.

Figure 1: Options for Phase 2



Note that in both scenarios there will be a CUG which includes all participants. Option 1 has an additional CUG for early adopters only.

Feedback received

We think that any change in approach would primarily impact CHAPS DPs and as such we have already started to seek feedback from this group. DPs noted some disadvantages to using the existing (Option 1) approach:

- **Increased complexity** in maintaining a directory of DPs' receipt requirements and in forming different types of messages for different DPs, depending on whether they are like-for-like or enhanced users;
- **Not being able to send on enhanced data** (including data received cross-border via SWIFT) to the end beneficiary CHAPS DP in all cases. This may cause e.g. compliance/sanctions screening concerns at both DPs; and
- **Increased testing** that would need to happen if there are two CUGs, particularly given that the membership of those CUGs may change during Phase 2 as more DPs become ready to send and receive enhanced data.

But some DPs noted that a benefit to remaining with Option 1 would be that they would have additional time to prepare to receive enhanced data.

DPs also flagged several benefits of moving to Option 2, including:

- **International harmonisation** – Option 2 is more closely aligned to the approach SWIFT and the ECB are taking;
- Encouraging **earlier use of enhanced data**; and
- Encouraging **longer term changes** to be made to systems, rather than firms having to implement short term/transitional fixes which are only used for Phase 2 of CHAPS implementation.

Timetable

The Bank is not proposing any changes to the implementation timetable⁷. This means that if Option 2 is adopted there would be an 18 month period between the publication of the enhanced schema and the date on which DPs are required to receive enhanced data (note that DPs would have a longer time frame to implement send capability). Following initial discussions with DPs, we believe that this would be a realistic time frame, in particular because (a) discussions indicate that it is easier to implement receive capability than send, and (b) the Bank's enhanced schema will be closely aligned with other international bodies. The Bank intends to maintain at least a 24 month period between the publication of the enhanced schema and DPs being required to send enhanced data in Phase 3.

Input requested

The Bank would welcome additional feedback on the two options for implementation of Phase 2, and is keen to hear views from interested parties across the payments community. If you have views that you would like the Bank to consider, please email rtgsengagement@bankofengland.co.uk by **16 October 2019**, indicating:

- Your firm's interest in this topic;
- whether you agree with the comments in the "Feedback received" section;
- whether there are other risks or benefits to either option that haven't been flagged; and
- any comments on the implementation timetable.

Following receipt of this feedback, the Bank will take a final decision on its approach. This will be communicated alongside the publication of the final like-for-like schemas and guidance at the end of this year.

⁷ See Diagram 1a in <https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/iso-20022/chaps-iso-20022-migration-draft-like-for-like-schemas-review.pdf>