Business Justification
for the development of new ISO 20022 financial repository items

# Name of the request:

Multilateral ancillary settlement messages for payment systems.

# Submitting organisation(s):

Bank of England – as operator renewing the sterling Real Time Gross Settlement (RTGS) infrastructure, where we act on behalf of users in accordance with our financial stability objectives.

**Address:**

Bank of England,

Threadneedle St, London, EC2R 8AH

United Kingdom

# Scope of the new development:

The initial requirement is to develop a single message for the multilateral settlement request. This new message definition is planned to be used in conjunction with implementations of existing messages to provide full multilateral settlement functionality.

The following table outlines the financial instruments, business area and business process of this request.

|  |  |
| --- | --- |
| Financial Instruments | Payment |
| Business Area | Payment Management |
| Business Process | Payment Settlement |

Settlement of the payment obligations will be performed based on the instructions submitted by the payment systems’ operators through a proposed new message definition:

|  |
| --- |
| *MultilateralSettlementRequestV01 is sent from a payment systems’ operators to the market infrastructure to settle the obligations between their participants using accounts held in the settlement service.* |

Example message flows:



The Bank of England proposes that the Payment SEG should be assigned the evaluation of the candidate ISO 20022 message(s).

The Bank of England has considered to use the ISO 20022 Business Application Header (BAH), specifically the V02 version of the message, and align it (along with the restrictions placed on the level of the usage guidelines) with the CHAPS messages (principally pacs.004 pacs.008 and pacs.009) planned for use in the sterling Real Time Gross Settlement infrastructure after the ISO 20022 migration.

The Bank of England intends to deploy the future messages in the ISO 20022 XML syntax.

The Bank of England is aware of the initiative run by The Australian Securities Exchange (ASX) to replace the existing CHESS system (Clearing House Electronic Subregister System) with a new system using the ISO 20022 format, for which the ASX commenced development of new message definitions in 2017. It was noted by a member of the PaySEG that a subset of these new message definitions is similar to the new message definition proposed by The Bank of England. Subsequently, the Bank has reviewed these in detail and with the RA and determined that the scope of information covered in the ASX development is tailored for the securities market and therefore would not be appropriate for use in the payments context.

# Purpose of the new development:

Payments systems across different jurisdictions utilise multilateral ancillary settlement instructions to settle payment obligations via settlement service providers. These payment systems – often retail or card schemes – will settle the obligations between their participants using accounts held by participants at the settlement service provider (often a central bank, to facilitate “central bank money” settlement, but commercial providers also exist). Multilateral net settlement arrangements to this effect are found in a number of different jurisdictions, including the NSS with the Federal Reserve in the US and TARGET2 with the ECB in Europe.

In the UK we currently have five payment systems that settle their obligations through the Bank of England’s multilateral net settlement service in RTGS; Bacs, Faster Payments, Image Clearing, LINK and Visa Europe. Another two payment systems are currently expected to start using the service within the next year. Users, such as banks, hold accounts at the Bank of England that amount to 100%+ of the liquidity required to settle these payment obligations. On a pre-agreed frequency, the payment system operators will instruct the Bank of England to settle these obligations on a multilateral net settlement basis through the accounts. The Bank of England’s messages are currently in MT format (albeit as MT298 proprietary messages registered with SWIFT) and we have committed publically to migrating these messages to ISO 20022.

We have spoken to other operators offering similar net settlement services who have noted that though they operate using (different) proprietary messages they may also seek to migrate their net settlement services to ISO 20022. Therefore where possible we intend to include other jurisdictions’ requirements. In other words, the base messages will be reusable by other jurisdictions, however the Bank of England is a first mover for this.

# Community of users and benefits:

The justification will identify the categories of parties/actors that would use/benefit from the new message(s), and **for each category of users**:

**Benefits/savings:**

The main benefit of migrating these messages from MT to ISO 20022 is that they will be able to be futureproofed / updated to accommodate for new settlement models both in the UK and with other currencies / jurisdictions.

ISO 20022 also provides a number of other benefits, such as alignment with our data model for other messages (e.g. CHAPS messaging and cross-border services) and the potential to use better, more structured data.

In the long term, for payment systems operators that make use of multilateral net settlement services in multiple jurisdictions, either currently or in the future (e.g. an international operator such as Visa), there will be efficiency benefits from using a common message type for issuing instructions to the settlement service provider in each currency, rather than creating / using a different proprietary message format for each jurisdiction.

**Adoption scenario:**

We anticipate that we would migrate to ISO 20022 messages in 2024 (TBC, but no later than November 2025). However, because the functionality is being developed by an already existing programme within the Bank of England we have a hard internal deadline to provide schemas by end-August 2021.

**Volumes:**

For the UK, these messages will be used for 5 existing schemes that settle in RTGS at least once a day (expected to become 7 schemes prior to migration). As above, we expect that there will be future settlement models that will utilise RTGS in the future and these will reuse these messages.

We expect a number of operators to follow the Bank of England in migrating these messages to ISO 20022. This includes other currencies, facilitating settlement in central bank money.

**Sponsors and adopters:**

The Bank of England will require all current and future RTGS multilateral net settlement service users to use these messages. Wider adoption is expected in other jurisdictions as they look at adopting ISO 20022 messaging for their own multilateral net settlement services.

# Timing and development:

**Urgency of the development, and the expected consequences of a delay:**

New message development described in this business justification document is considered as urgent. The consequences of delay are that the Bank of England will have to go ahead with developing the multilateral net settlement service in its new RTGS system using draft messages. There is no wider international consequence as we believe we are the front runner.

**Date when the submitting organisation is planning to have the new candidate ISO 20022 business and message models developed and ready for submission to the RA:**

The Bank of England will deliver the draft message definition immediately after the approval of the Business Justification.

**Who will the submitting organisation (try to) involve in the development (standards organisation(s), industry groups, user representatives, vendor representatives, service providers, regulatory bodies, market infrastructures, etc.):**

The Bank of England will (and has already) involved: the existing users of the sterling RTGS settlement service; future users of the sterling RTGS settlement service; Other operators of similar services that may use these messages in the future (such as the ECB and the Federal Reserve Bank).

**Any other known standards initiative(s) involved in an effort to address the same requirements**:

As above, we are the front runner but based on ongoing discussions we fully anticipate that other operators of settlement services will follow.

# Commitments of the submitting organisation:

The Bank of England confirms that it can and will:

1. undertake the development of the candidate ISO 20022 business and message models that it will submit to the RA for compliance review and evaluation. The submission must be compliant with the [ISO 20022 Master Rules](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) and include a draft Part 1 of the Message Definition Report (MDR) compliant with the [template for MDR part 1](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) provided by the RA, the [ISO 20022 Message Transport Mode](http://www.iso20022.org/documents/general/MessageTransportModes.xls) (MTM) that the submitting organization recommends to consider with the submitted message set, and, optionally, examples of valid and invalid instances of each candidate message. The submission may also include a Message User Guide (MUG) to complement the MDR and describe in further details how to use the different possibilities/options of the proposed candidate message(s);
2. address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.

The Bank of England confirms that it will promptly inform the RA about any changes or additional accurate information about the number of candidate messages and the timing of their submission to the RA.

The Bank of England confirms it intends to organize internal testing of the candidate messages once they have been reviewed and qualified by the RA and before their submission to the SEG(s) for approval.

The Bank of England confirms it is committed to undertake future message maintenance.

The Bank of England confirms its knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, as follows.

*“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free license to use the published information”.*

# Contact persons:

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