



Migration to ISO 20022 in Clearing Systems

Why is it relevant for Corporate Treasury?

General Introduction

The migration to ISO 20022 lays the foundation for vastly improved payment processing efficiency and interoperability among High-Value Payment Systems. Its benefits are numerous from a customer experience and compliance perspective, as well as providing the capabilities to deliver new services. In recent years, there have been a number of initiatives and organizations that have strived to achieve harmonised standards and rules for the exchange of payment messages. However, the watershed moment has now come with the decision by major central banks, Market Infrastructures (MI) and SWIFT to migrate to ISO 20022 for the whole payment value chain, including the account statements.

Which Clearing Systems and Market Infrastructures are impacted by the ISO20022 Migration?

Over the next five years, institutions such as:

- Eurosystem and EBA Clearing in Europe
- Federal Reserve and The Clearing House in the US
- Bank of England's RTGS service
- Other market Infrastructures in Australia, Hong Kong, Malaysia, Thailand, and Ukraine

will all modernise their High Value Payment Systems, underpinned by the migration to ISO 20022.

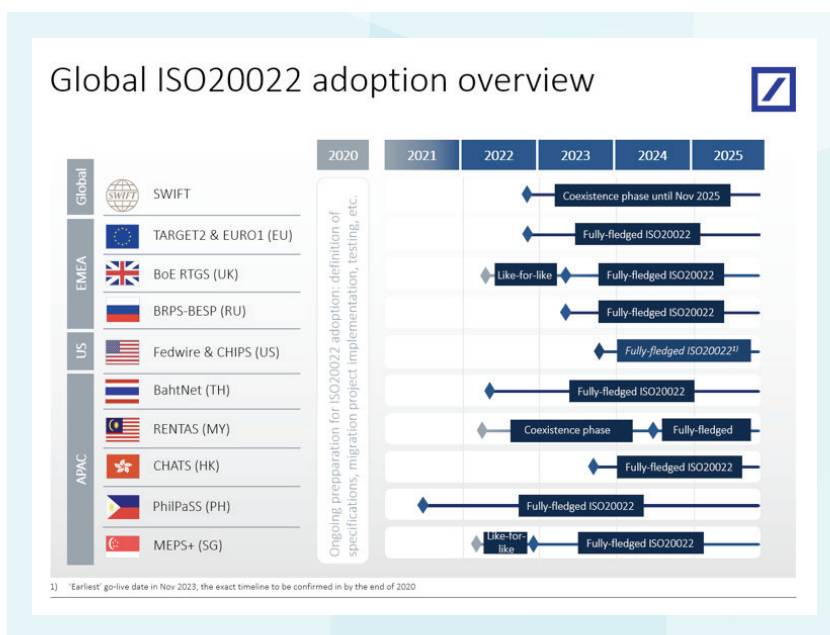
It seems relevant only for Banks – Why do I need to know this as a Corporate Treasurer?

While ISO 20022 migration may at first appear to be technical and abstract, it will have far-reaching implications for banks' payment systems and processes and, as a result, it will also impact Corporate Treasury's worldwide.

While SEPA (EEA with 26 countries) has been one of the initial drivers to establish ISO 20022 as the strategic standard format in the corporate and bank payments business, more and more market infrastructures worldwide are migrating to ISO 20022. However, only in a few countries it had yet a concrete impact on the corporate-to-bank payments.

Going forward, all international banks will invest and implement ISO 20022 as well across their whole corporate payments and reporting processes, thus improving the overall client experience. Therefore, it is recommended to corporates to move to ISO 20022 format for the complete payment and treasury and

Timelines of the Migration as of August 2020



1) Like-for-like' refers to an implementation approach that implements a subset of ISO 20022 that is limited to the same functionality as the standard it replaces, e.g. SWIFT MT

accounting business/value chain in Treasury, in order to benefit from these new processes. In certain cases, e.g. when local formats do not meet the future clearing requirements, it may be mandatory for corporates to migrate to ISO 20022 over the coming years.

Hence, it is recommendable for Corporate Treasurers to engage in understanding the challenges and opportunities of this migration.

What are the main benefits in the corporate space? Are there any tangible gains to be expected?

The ISO 20022 format and its widely adoption will enable end-to-end business processes, as the same data can be used without any need for conversion and data truncation.

Current limitations due to the interbank usage of SWIFT MT format will be overcome. The current remittance field of 140 characters may not provide sufficient length to outline the details of invoice being settled. By end of 2025, longer and structured remittance information (up to 9000 characters) can be provided to the bank for cross-border and high



value payments, which will improve the reconciliation process, once it is supported by all involved parties.

Moreover, the rich message structure from ISO 20022 will facilitate transparency and increase operational efficiency in terms of “straight-through-processing” (STP) as well as message filtering (sanctions & embargo filtering), e.g. AML checks. It will help the banking industry address major pain points, such as further automating “data analytics” on the flight of the payment for the purpose of Financial Crime Compliance intervention.

What impact will the migration have on systems, formats?

On the payment initiation side, Deutsche Bank will support more dedicated fields in the ISO 20022 format. Moreover, as the corporate payments market globally moves towards a new ISO 20022 version, it is recommended to combine payment information system changes with the migration to this new ISO version.

In Germany, the current local format for cross-border payments (DTAZV) will be migrated to the 2019 version of ISO 20022 format by end of 2025.

Following the introduction of ISO 20022 in the interbank space, incoming payments can carry more and structured information –e.g. structured remittance data, details of ultimate parties and the End-to-End reference. It means, that the import of such “enriched” ISO 20022 account statements needs to be supported by the corporate enterprise resource planning (ERP) or treasury management system (TMS), in order to ensure auto-reconciliation.

Structured data on the rise

The mandatory use of structured party information is on the horizon – something corporates cannot ignore. Cross-border and high value payments will require any party in the payment instruction to be provided with structured address data, i.e. dedicated fields for information like street, town name and country.

As a result, corporates will need to enhance their ERP or TMS, improve their own static data, and more importantly, obtain and complete their counterparty data with the full address.

Can corporates continue to use SWIFT MT101, MT940 / MT942 format after 2025?

Deutsche Bank recommends to start migrating to XML ISO20022 format, to benefit from richer and more structured information. Nonetheless, Deutsche Bank will continue to support FIN MT messages under the SCORE or MACUG corporate framework after 2025.

Deutsche Bank's Position and Recommendations

Deutsche Bank acknowledges and favours the benefits of ISO 20022, including a standardised and harmonised payments landscape, as well as the potential to obtain automated analytics for sanctions screening, compliance, AML, and value-added services.

We are an active member of regional working groups as well as the global corporate-to-bank XML industry group CGI-MP (Common Global Implementation – Market Practice), which closely engages with the clearing communities and SWIFT to drive standardization, and to ensure alignment and benefits for corporates.

While much of the onus for migration falls on their banking partners, corporates will need to coordinate with them and their internal stakeholders to ensure a smooth transition.

As part of this project, corporates may need to undertake investment in their solutions to provide required party and other information to their banks, as well as the new ISO message versions.

Why engaging so early?

We believe in the importance of understanding soon the overall impacts for Banks and for Corporates and including these considerations in planning for changes to come, involving early on all relevant stakeholders inside, and outside of the organisation, addressing any potential hurdles of migration as early as possible.

More detailed information and timelines will be provided along this migration project.

Where should I start?

Ahead of the migration, we strongly encourage corporates to engage in industry discussions and start the dialogue with banking partners and ERP/ TMS providers to understand how their payment and account information products may be affected. This may require in-house co-ordination, especially if operating in multiple markets/countries.

Contacts

For further information, please contact your counterpart at Deutsche Bank.

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