

# Consultation



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## **ISO 2002 Payments Standard Initiative Consultation Summary**

The CPA ISO 2002 Project Team

March 14, 2016

## BACKGROUND

From August 10 to September 30, 2015, the Canadian Payments Association (CPA) conducted a public consultation as part of the ISO 20022 Payments Standard Initiative:

[Creating Opportunities in Canadian Payments](#) – *CPA's ISO 20022 Payments Standard Initiative Consultation Document*

Canadian payment system stakeholders were invited to provide input on the proposed payment messages, policies and adoption strategy for ISO 20022 Automated Funds Transfer (AFT) payments, which ultimately shaped the CPA's ISO 20022 payments standard for use in Canada.

The consultation paper was downloaded 597 times during the consultation period. The CPA received a total of 12 responses, including feedback from the Canadian Bankers Association (CBA) (representing 60 Financial Institutions), the Canadian Life and Health Insurance Association (representing 70 corporations), as well as the Banque Laurentienne, CLS Services Ltd., PNC Bank, Mouvement des caisses Desjardins, OpenText, ACI Worldwide, Central 1 Credit Union, Office of the Privacy Commissioner of Canada Department of Finance, Receiver General of Canada and Bank of America National Association. A survey for corporate payments system users on the ISO 20022 payments standard was also conducted during the consultation period. Sixty-seven responses were received and have been summarized in [Appendix I](#).

We thank all respondents for their feedback and, as promised, have prepared the following summary of responses without attribution.

## CPA ISO 20022 PAYMENT MESSAGES

Feedback from consultation respondents indicated strong agreement with how the CPA defined its ISO 20022 AFT message portfolio and the structure of each of the ISO 20022 messages within the portfolio. The following specific comments were noted while consolidating feedback.

The CPA should:

- attempt to harmonize the ISO messages created for the AFT, EDI and LVTS schemes into a single ISO 20022 message set that could be used across all three schemes;
- allow for more than one iteration of the Unstructured Remittance Information element for small/medium businesses;
- be prepared to adequately manage the risks associated with the increased amount of, and in some cases sensitivity of, information that may be included in an ISO AFT message; and
- include a distinct 'due date' element for ISO AFT Transactions in order to accommodate Canadian requirements.

It was noted that the creation of these new messages would facilitate the end-to-end processes that would ultimately support straight-through processing (STP) and automated reconciliation - one of the most significant,

long term benefits for businesses of using ISO 20022. Development of these new messages would also reduce the likelihood of fragmentation across the ecosystem and the risk of standards drift with ISO 20022.

The CPA also heard that that the majority of respondents agreed that it would be useful for the CPA to expand its message portfolio by developing minimum message standards for the customer-to-bank and the bank-to-customer portions of the payment chain (i.e., the Payment Initiation (PAIN) and Cash Management (CAMT) messages.).

**Recommendation:**

- 1) Move forward with the proposed message structure for ISO 20022 payments in Canada as originally designed. While some additional considerations were voiced, the majority supported the ISO AFT messages that were developed. The ISO 20022 message structure is flexible by design and can evolve over time to meet the needs of payment system participants. Should there be a business need for changes to the ISO AFT messages, such as additional iterations of Unstructured Remittance information, the CPA will facilitate the necessary amendments to the ISO AFT Standard. The CPA is of the opinion that the extensive work effort put forth by industry representatives on the ISO AFT Working Group during the development phase of the project adequately addressed the related requirements of the AFT payments in the mapping of, and usage guidelines built for, the ISO 20022 AFT transactions (including defining guidelines to identify the AFT Due date and any data type requirements for ISO 20022 AFT transaction).
- 2) Develop minimum ISO 20022 message standards for the payment initiation and cash management portions of the payment chain. The recommendation will be to handle the development and review of these new messages as part of the ongoing operational support and maintenance of the ISO 20022 Standard.
- 3) As work on the CPA's Modernization initiative progresses, the CPA will explore the possibility of harmonizing the ISO messages for AFT, EDI and LVTS into a single ISO 20022 message set. If harmonization is not feasible, the CPA will ensure as much consistency across each payment scheme as possible.
- 4) The CPA plans to address the risks related to the increased amount of information that may be included in payments through its information security standard and retention policy (see Policy Proposal section below for details).

## ADOPTION STRATEGY

Feedback received from CPA members (Direct, Group and Indirect Clearers) and stakeholders indicated strong support for ISO 20022 adoption in Canada. It also indicated two distinct positions have emerged on the timing and approach for the adoption of the standard.

Generally speaking, CPA Members believe the adoption of ISO 20022 should be tightly integrated with the work of CPA's Modernization initiative, which may result in new core payment system development. Therefore, plans to publish ISO AFT rules and messages in early 2016 should not proceed until the scope, timing and impact of Modernization are clearly understood.

Alternatively, larger Indirect Clearers and stakeholders are generally aligned with the adoption strategy outlined in the consultation document, with one significant difference; namely, that CPA should establish an end-date for adoption when it publishes ISO AFT rules and messages in 2016.

Additionally, members and stakeholders provided the following input:

- Members question the ability to define a strong business case for moving forward with ISO 20022 and there is a perceived lack of alignment with the US and its plans to adopt ISO 20022.
- Not setting a mandatory end-date for adoption will lead to a longer co-existence period and potential fragmentation amongst Participants.
- Members called on CPA to conduct further work to facilitate the migration of EDI payments to the new ISO AFT rules and messages framework.
- Respondents expect CPA to establish milestones, monitor adoption and report results back to the industry once implementation begins.
- CPA should take into account all of its initiatives impacting members when planning for the adoption of ISO 20022.

**Recommendation:**

The CPA believes the proposed adoption strategy, as described in the consultation document, balances the interests of members and stakeholders, and recommends that implementation of the ISO AFT message standard and supporting rules should proceed as early as possible in 2016. Achieving this milestone is in line with the entire body of work executed thus far and is consistent with communications to the CPA Board, Members and Stakeholders delivered throughout the project.

Furthermore, the CPA recommends that its role in managing overall industry adoption be established by ongoing industry promotion and education, by communicating target migration rates of regular intervals, e.g. 24, 36 and 60 months, and by monitoring and reporting progress on a regular basis.

## POLICY PROPOSALS

The ISO 20022 Consultation Document included specific questions related to our proposed policy positions that would inform the CPA's rules framework for ISO AFT. General themes heard through the consultation process have been incorporated below under the four policy sub-headings outlined in the consultation document. Responses to specific policy questions are included under the most suitable sub-heading.

## SUPPORT ADOPTION

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In the consultation document, the CPA ISO project team proposed that any CPA member that opts to participate in the ISO 20022 AFT Framework (Participating Members) be required to register its intent with the CPA, as part of a formal on-boarding process, and to adhere to CPA rules for the exchange of ISO 20022 AFT debit and credit transactions. There was divergence among respondents as to whether the CPA's ISO rules framework should apply equally to both Direct Clearer and Indirect Clearer Participants, with one Direct Clearer answering that the rules should apply equally to all Participants, so as to ensure that Indirect Clearers are provided with full remittance details (Structured, Unstructured and Related Reference details) in the same time frames as required for the Direct Clearers. Other Direct Clearers suggested that adoption by Indirect Clearers should be market-driven without formal direction or specific obligations imposed by the CPA.

## TRAVEL, AVAILABILITY & RETENTION

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This policy proposal outlined the specific obligations of Participating members in regards to the format in which ISO AFT payment items must travel, when and how remittance information must be provided or made available to end-users and retention requirements for remittance information. Three specific questions related to this travel, availability and retention were asked in the consultation document.

In answer to the consultation question of whether Indirect Clearers should be required to exchange in ISO 20022 format, many respondents noted that the benefit of the ISO 20022 standard to participants, and to the payments system overall, is increased if end-to-end flow is enforced through CPA rules governing travel. One Indirect Clearer recommended that the ability to receive in ISO 20022 format should be mandated for all participants, including Indirect Clearers. Banks felt strongly that Direct Clearers should be free to negotiate the protocols for interchange with their Indirect Clearers and that market forces, rather than CPA rules, should determine how Indirect Clearers leverage ISO 20022.

### **Recommendation:**

The CPA ISO 20022 project team recommends that Indirect Clearers who choose to participate in the exchange of ISO AFT payment items be required to exchange in ISO 20022 format. However, this requirement does not preclude the use of third party ISO 20022 service providers by participating Indirect Clearers. To be clear, use of a third party service provider would in no way absolve a participant of the obligations, liabilities and requirements of participation as outlined in the CPA's ISO rules framework. We also recommend that all ISO 20022 participants, including members that employ the use of third party service providers, register with the CPA and be required to adhere to CPA rules governing use of the ISO 20022 standard, including requirements for making remittance information available to end-users. This approach will help to create a more level playing field for smaller institutions, and also provide certainty to end-users.

In response to the proposed requirements and timeframes for making available remittance information included in an ISO AFT payment message, there was broad, though not unanimous, consensus that the requirements and timeframes proposed by the CPA are adequate to support adoption of ISO 20022 by CPA members and stakeholders. The transparency of obligations and predictability around the exchange and receipt

of remittance information that the CPA's proposed requirements and timeframes provided was also cited as a means of encouraging adoption of ISO 20022 by end-users and of ensuring a competitive balance among Participating Financial Institutions.

**Recommendation:**

Input received from public consultation reinforced the CPA's proposed policy position; therefore, it is recommended that the CPA adopt the requirements and timeframes as proposed.

There was a great deal of divergence in response to the CPA's proposed 90-day retention period for remittance information. There were some reservations that the 90-day retention time period was too short, while others felt the time period was sufficient and in line with other non-ISO 20022 CPA requirements for retention (i.e. CPA Rule H1 governing Pre-Authorized Debits). Still others advised that the issue of retention of remittance information is a commercial matter that should be determined by client preferences and general competitive market forces, and the CPA should not make any rules requiring a minimum retention period for remittance information, but should maintain current requirements for the retention of payment details only.

**Recommendation:**

In place of a formal retention rule, the CPA recommends imposing an obligation on participating Financial Institutions to provide or make available Extended Remittance Information upon request up to 90 days of the date that the associated payment was debited or credited to the Remittance Beneficiary's account. This approach upholds end-user interests by providing for reasonable and assured access to Extended Remittance Information, while also enabling market forces and client preferences to influence the retention practices of participants. Unstructured Remittance Information would not be subject to this obligation, as participants already have an obligation to provide Unstructured Remittance Information to the Remittance Beneficiary. Obligations for the retention of payment details for tracing and auditing purposes will continue to exist for all ISO 20022 payments, as it does today.

## PRIVACY AND SECURITY

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Feedback to the consultation document included unanimous support for the proposal that the CPA enforce a minimum information security standard for ISO 20022 payments, and that it apply equally to both the payment data and remittance data included in an ISO 20022 message. Respondents recommended that the CPA require adherence to a recognized security framework or to accepted industry best practices without being overly prescriptive, and specifically mentioned CPA Standard 12 (Image Security Standard) as an example. Respondents also highlighted the need to consult closely and share the principle-based security standard as quickly as possible with the industry.

**Recommendation:**

The CPA recommends that it require Participants to follow a principle-based security standard modelled closely on CPA Standard 12, the security standard developed for the exchange of cheque images under Rule A10. This

will allow the CPA to ensure minimum acceptable levels of information security without being overly prescriptive, thereby supporting end-user confidence in the scheme and allowing participating FIs to leverage existing internal security processes and controls for ISO 20022 payment items. This will be developed in collaboration with the industry outside of the ISO 20022 project scope as a follow-on piece of operational work.

## OPT-OUT

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Subsequent to the closing of the public consultation period, the CPA consulted extensively with members and stakeholders on the removal of the opt-out clause from the draft ISO AFT rules (Rule F4) for Unstructured Remittance Data. The removal of the opt-out clause, initially proposed by a key Stakeholder, was supported by the Department of Finance, other CPA Stakeholders and multiple Financial Institutions. This approach was presented to the NCC on December 14, 2015, and while there was no consensus in support of this approach, the CPA heard no strong opposition to warrant a change in approach at this time.

### **Recommendation:**

The CPA recommends removing the opt-out clause from the rules. Removal of the opt-out clause will:

- Ensure ubiquity of end-user experience
- Provide certainty to Remittance Originators
- Address member concerns with significant technical and administrative challenges of managing an opt-out regime
- Respect commercial relationships by not disintermediating Remittance Beneficiaries from Remittance Originators

Some members also expressed concern that removal of the opt-out provision would preclude them from recovering costs for providing the service to clients, while others noted that removing the opt-out clause may cause cannibalization of Structured Remittance Data in favour of Related Remittance Data.

Additional comments noted that with expanded capacity to carry information, ISO 20022 can also enable access to this information by parties that do not necessarily need to access it. It was suggested that CPA rules, policies and procedures, and the practices of participating members limit the nature of information included in ISO 20022 messages to information related to the associated payment, and also indicate that participating members must meet their privacy compliance requirements under applicable privacy legislation.

In order to comply with existing privacy legislation, appropriate consent must be obtained by participating members for any collection, use or disclosure of personal information to third parties, and that any sharing of personal information be disclosed to affected individuals.

## COSTING

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In terms of the pricing of ISO 20022 services offered by participating members, we received feedback that it is important that the CPA help set expectations in the market that there may be costs to end-users for the benefits of enhanced payment messaging services. CPA rules will not address costs, fees or contractual terms that may

be levied by participating members to their customers in relation to ISO 20022 implementation, including any fees to provide or make remittance information available.

## NEXT STEPS

The CPA's ISO 20022-enabled AFT messages, including strategy for adoption, policies and usage rules, were approved by the CPA Board of Directors on February 18, 2016. The ISO 20022-enabled AFT messages will be made available for use by Canadian Financial Institutions in April 2016, in conjunction with the launch of a CPA ISO 20022 Resource Centre for CPA Members. The CPA will provide continued education and support, while monitoring member adoption of the standard.

For more information on the CPA's ISO 20022 initiative, visit the [CPA website](#), [subscribe to notifications](#) or contact us at [ISO20022@cdnpay.ca](mailto:ISO20022@cdnpay.ca).



## APPENDIX I: ISO 20022 Survey for Corporates – Summary of Responses

### BACKGROUND

As part of Phase-I of the ISO 20022 Payments Standard Initiative, an ISO 20022 Survey for Corporates was conducted. The intent of the survey was to provide the CPA with a better understanding of the prevalence of ISO 20022 amongst businesses in today's payments environment and to better understand their plans for the future use of ISO 20022 for payments. This knowledge will inform the adoption strategy and future initiatives for the CPA to continually educate the marketplace.

The survey was disturbed as part of the broader ISO 20022 public consultation as well as to targeted audiences. There were a total of 67 responses<sup>1</sup> to the corporate survey which were primarily from the financial services sector, however there was representation across several industries.<sup>2</sup> There was balanced representation from small and large businesses, with only a few medium sized businesses responding to the survey<sup>3</sup>.

### UNDERSTANDING THE MARKETPLACE TODAY

To better understand the extent of use of ISO 20022 in the marketplace today, respondents were asked whether they currently sent or received ISO 20022 messages. Responses were as follows:

**Does your organization currently send or receive ISO 20022 messages, either internally or externally?**

- Yes: 10
- No: 43
- Don't know: 6
- Skipped: 8

Of the 10 respondents that currently send/receive ISO 20022 messages, six were large businesses and four were small businesses, an indication that businesses of all sizes may have a business case for adopting ISO 20022. The responses were also evenly split between the Energy and Financial sectors (4 each, 2 respondents did not provide a response). In terms of the business domain in which ISO 20022 messages were used, six indicated that the business domain was Payments while three indicated that ISO 20022 messages were used for Foreign Exchange transactions.

All respondents indicated that ISO 20022 was integrated within their Treasury and/or Enterprise Resource Planning (ERP) systems, that ISO 20022 remittance information elements were populated to provide their business partners with additional information related to the payment, and most indicated that they issue both batched (one ISO 20022 message to pay multiple invoices) and non-batched (one ISO 20022 message to pay one

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<sup>1</sup> While 67 total responses were received, not all respondents answered each question.

<sup>2</sup> Financial 34; Energy 10; Health 1; Utilities 3; Government 4; Legal 2; Information Technology 2; Retail 3; Transportation 3; Other/Skipped 5.

<sup>3</sup> Size of business: Small (1-99): 23; Medium (100-499): 7; Large (500+): 26; Skipped: 11

invoice) ISO 20022 payments. Some other key questions that were posed to businesses that currently use ISO 20022 messages included:

**How long has your business been using ISO 20022?**

- 1-2 years: 3
- 3-5 years: 2
- 5+ years: 2
- Skipped: 3

**Are you sending and receiving ISO 20022 messages to/from your Canadian Financial Institution?**

- Yes: 5
- No: 1
- Skipped: 4

**Which types of payments do you currently send or receive using ISO 20022 payment messages?**

- Domestic payments – Wires: 3
- Domestic payments – Retail: 1
- International payments – Wires: 4
- International payments – Retail: 1

Additionally, all survey respondents were asked to indicate their need for enhanced remittance information, the methods used to send invoices today, and how they currently send and receive remittance information. The responses were as follows:

**Do you have a requirement to send/receive invoice information with your payments?**

- Yes: 37
- No: 6
- Skipped: 20

**Do you have a need to include more remittance data than is currently possible?**

- Yes: 18
- No: 16

**Please indicate the methods you use today to send invoices?**

- Paper: 23
- Electronic (e.g. email, fax, credit card): 25
- Other (e.g. portal): 2

**How do you currently receive/provide remittance information for domestic payments?**

- Paper: 4
- Electronic (email, fax, EDI...): 24
- Other (e.g. of responses: solutions provider, through FI, credit card, manual processing): 7

### **How do you currently receive/provide remittance information for international payments?**

- Paper: 1
- Electronic (email, fax, EDI...): 10
- Other (e.g. of responses: third party, CSV, through FI, wire transfer): 7

## **PREDICTING THE FUTURE**

Businesses that do not currently send or receive ISO 20022 messages were asked about future plans with respect to the standard. CPA received strong indication that survey respondents were considering implementing ISO 20022 at some point in the future:

### **Are you considering using ISO 20022 in the future?**

- Yes: 37
- No: 10
- Skipped: 10

Based on the responses, large businesses (90% of large businesses that had not yet implemented ISO 20022), small businesses (79%) and medium businesses (57%) alike are considering ISO for the future. Overall, this represents 77% of all respondents that have not yet implemented ISO 20022 that are considering ISO 20022 for the future.

In terms of the sectors that are planning to implement ISO 20022 in the future, 22 respondents were from the financial sector, 3 from the Energy sector, 3 from the Utilities sector, 1 from Health Services.

Most respondents indicated that they were not yet in discussions with their Canadian Financial Institutions regarding the possibility of sending and receiving ISO 20022 messages, though six indicated that they had engaged in active discussions with their Financial Institutions.

For those businesses that had plans to implement ISO 20022 in the future, they were asked about their timelines to adopt the standard. The responses were as follows:

### **What is your timeline for adoption of ISO 20022?**

- 1-2 years: 7
- 3-5 years: 18
- 5+ years: 3
- Skipped: 9

These figures were further refined by business size and sector as follows:

Size of business	1-2 years	3-5 years	5+ years
Small	5	6	1
Medium	1	2	0
Large	1	10	2
<b>Total</b>	<b>7</b>	<b>18</b>	<b>3</b>

Sector	1-2 years	3-5 years	5+ years
Energy	2	2	1
Financial	3	13	1
Utilities	1	2	
<b>Total</b>	<b>6</b>	<b>17</b>	<b>2</b>

## KEY BENEFITS OF ISO 2022

All survey respondents were asked to list the key benefits they have, or plan to derive from, using ISO 2022 messaging. The results were consistent with the CPA's stated benefits, and include:

### 1. Enhanced remittance information facilitating straight through processing and automated reconciliation

Specific responses included:

- Fifteen respondents specifically noted STP/automated reconciliation
- With more payment information we will be able to automatically allocate our revenue
- We can provide our clients with more information about payments
- Remittance details must flow with the payment
- Increased transactional data for analysis
- Collection of additional payment details to facilitate issuance of refunds

### 2. Efficiencies and cost savings

Responses included:

- Improved efficiencies and cost savings as the primary benefit for moving to ISO 2022, with
- Thirteen respondents mentioned the ongoing cost savings related to technical support for ISO.
- Seven respondents identified ISO 2022 as an enabler for faster payments
- Elimination of legacy systems

- Less costly payment methods, so AFT may be used instead of higher cost payment methods
- Decreases error rates with pre-validations of records
- Reduced transaction processing time

### 3. Interoperability

Specific responses included:

- Nineteen respondents noted standardization and global interoperability
- Consistency of message information
- Moving towards one standard file format
- Interfacing with partners

### 4. Other

Responses included:

- Future-proofing
- Bank agnostic
- Expanded business opportunities i.e. forex, trade etc.
- Reduction in fraud
- Fewer intermediaries
- To meet the demand of the marketplace

## CONCLUSION

Based on the responses received there seems to be a clear trend in the marketplace moving toward ISO 20022 as the payment messaging standard of the future. The responses indicate that:

- 92% (24/26) of large businesses either use ISO 20022 today or are considering it for the future
- 83% (19/23) of small businesses either use ISO 20022 today or are considering it for the future
- 57% (4/7) of medium businesses are considering ISO 20022 for the future

There is also indication that the market will see some adoption of ISO 20022 in the next 1-2 years, with more significant uptake occurring over the next 3-5 years across many industry sectors.