ISO 20022 MIGRATION FOR THE AUSTRALIAN PAYMENTS SYSTEM – ISSUES PAPER – RESPONSE TEMPLATE

Name/Organisation: Visa AP (Australia) Pty. Ltd.

Organisation Category: Vendor/Payment Service Provider

About these consultation questions:

Primarily the focus of these questions relate to direct participants in Australian payment systems and will not be applicable to all that wish to respond to this public consultation. Notwithstanding this focus, the RBA is open to receiving comments from all respondents and invites general comment in the last question.

2.4 Objectives of an ISO 20022 migration for payments in Australia

Q1. Does your organisation currently support ISO 20022 for payments and reporting messaging?

☐ Yes
☒ No

If yes, what payment systems and/or associated activities are currently supported? If no, what plans does your organisation have to support ISO 20022 by 2024?

> Visa is in the process of upgrading its treasury systems to enable the use of ISO 20022 standards for payments and reporting. The goal is to have our payment hub and reconciliation systems supporting International settlement services, as well as Domestic settlement services where applicable, to natively use the ISO standards. The expectation is that we will support multiple implementations of the ISO 20022 standards as each country harmonises the standards with its market participants and determines how best to utilise the optional fields with the pain.00X formats. If invited, Visa will participate in the harmonisation exercise of the ISO 20022 standards used in the High Value Payments systems for the purpose of settling with our clients who participate in the Visa network. Timeline for completion of our ISO 20022 implementation for International settlement services is scheduled for the fourth quarter of 2020, while ISO 20022 implementation for Domestic settlement services will be carried out in phases based on market prioritisation and readiness.

Q2. Does your organisation provide or use inbound and/or outbound correspondent banking services?

☐ Yes – cross-border inbound
☐ Yes – cross-border outbound
☐ Yes – both inbound and outbound cross-border
☒ No

Q3. Are there any other objectives that your organisation believes the Australian financial industry should look to achieve as part of an ISO 20022 payments migration?

☒ Yes
☐ No

If yes, please explain your views.

Visa is looking to work with SWIFT to have a combined ISO 20022 file to handle debits and credits in the same file in order to avoid the risk of having a debit file rejected due to Non-Sufficient Funds but the separate credit file being processed, thus not retaining the net settlement model.

Visa suggests that the Australian financial industry should look to achieve harmonisation with its ISO 20022 implementation and help to further modernise its payments infrastructure by adopting the most current version of ISO 20022. The focus on harmonisation is to determine a standard for use of all optional fields to improve straight through processing of payments and aid beneficiaries in the reconciliation of their receivables. All market participants should agree to the same version of the ISO 20022 standard and the use of the optional fields within specific file specification such as pain.001.

2.5   Risks and challenges

Q4 a) Do you have any comments on the high-level risks and challenges of payments messaging migration to ISO 20022 outlined in Section 2.5?

☒ Yes
☐ No

If yes, please provide your comments under the relevant risk/challenge: prioritisation against other initiatives, business case approval, project horizon and cross-border migration.

There are inherent differences between the card payments and the interbank payments ecosystems. The message structures, settlement methods and funding method carry many differences, which could make integrating some payment types at a processing level unmanageable and inefficient, adding complexity which increases risk.

Interbank payments tend to be between financial institutions, whereas cards payments frequently involve a much higher number of parties and intermediaries within the domains covering Merchants to Acquirer, Acquirer to Issuer and Issuer to Cardholders. Consequently, there are many additional and more flexible end-points. This has direct implications on the card payment message set. Within the card payments ecosystem, local, regional or global legal and regulatory demands require continual maintenance. This necessitates frequent and rapid messaging standards maintenance cycles for the card industry.

Equally, the additional value adding services provided by cards during processing also necessitates some flexibility in the messaging standards applied. Without this flexibility, the competition and innovation that has flourished in the card industry would not have been possible. This approach should enable sufficient commonality while ensuring differentiation to support innovation and competition.

Visa, if invited, will actively support the implementation and harmonisation of the ISO 20022 standards used in the High Value Payments systems for the purpose of settling with our clients who participate in the Visa network.

Q4 b) Are there any other major risks and challenges that you believe need to be considered?

☒ Yes
☐ No

If yes, please explain your views.

The interoperability between payments systems, between all interbank payment types with respect to the routing and switching of payments, may be a challenge. For interoperability to be achieved, the payments platform(s) should be designed and deployed in a certain way from the outset. As mentioned earlier in our response, there are distinctions between payment types and for that reason a balance between

interoperability and differentiation is needed – this is also our view in relation to the New Payments Architecture work.

Q5. For your organisation, please consider each risk and challenge outlined in Section 2.5, and list any others you have identified in Q4 b). Please rate each risk/challenge for your organisation according to the scales for likelihood (rare, possible, likely, almost certain, certain) and consequence (insignificant, minor, moderate, major, catastrophic). Please rank each risk/challenge by the difficulty they pose to your organisation, with 1 being the most difficult.

Risk/Challenge Item	Likelihood	Consequence	Difficulty
Prioritisation against other initiatives	Certain	Major	1
Business case approval	Certain	Major	1
Project horizon	Certain	Major	1
Cross-border migration	Rare	Minor	N/A
Click here to enter text.	Choose an item.	Choose an item.	Enter ranking.
Click here to enter text.	Choose an item.	Choose an item.	Enter ranking.
Click here to enter text.	Choose an item.	Choose an item.	Enter ranking.
Click here to enter text.	Choose an item.	Choose an item.	Enter ranking.

Add as required.

3.1 Australian payments, clearing and settlement systems

Q6. Which, if any, of the messages categorised as "Other messaging that could be migrated", should be included as part of an ISO 20022 payments migration? Are there any that you think could potentially form part of a later stage of migration?

	Yes	No	No View	Later Phase
Direct credits and debits (direct entry (DE)) clearing messaging	☐	☐	☒	☐
RITS Low Value Settlement Service (LVSS) settlement messaging	☐	☐	☒	☐
Customer to financial institution/financial institution to customer messaging	☐	☐	☒	☐

Please explain your views.

To be able to conduct a full scale impact assessment regarding the ISO 20022 payments migration, additional information from the RBA pertaining to its migration plans will be helpful for Visa. This will allow Visa to form an as accurate as possible view of the impact of the migration on the card industry's transaction processing systems. In Visa's view, the ISO 20022 migration will have no impact on our own card transaction clearing processing. In addition, under "Risks and challenges" in section 2.5 of the response template, Visa highlights the importance of introducing flexibility around timings and the adoption of new standards during the migration to ISO 20022 to ensure successful implementation.

Q7. Do you have any other specific feedback you wish to provide on the overall ISO 20022 payments migration scope?

☐ Yes
☒ No

If yes, please explain your views.

Q8. For organisations that use the RBA's AIF reporting and enquiry service, what are your initial views on a replacement solution to modernise this service? For example:

☐ Develop ISO 20022 messaging
☐ Develop an RBA Application Programming Interface (API) service
☐ Other

Please explain your views.

Visa does not have any views on this.

3.2 Possible message enhancements

Q9 a) Please provide your views on whether to include each of the enhanced content items proposed in this paper in Section 3.2.

Enhancement	Include	Views
Payment Purpose Codes	☐	Visa does not have any view on this.
Identity Information	☐	Visa does not have any view on this.
Legal Entity Identifiers (LEIs)	☐	Visa does not have any view on this.
Remittance Information	☐	Visa does not have any view on this.
International Bank Account Number (IBAN)	☐	Visa does not have any view on this.

Q9 b) What other enhanced content considerations would like to see included as part of the migration project? Please explain your views.

Legal Entity Identifiers (LEIs) are not widely used or facilitated in payments or supply chains. We have identified a number of potential concerns with the use of LEI as an indicator which we would welcome being considered.

Currently, the main use case for LEIs is in securities and there is no proven track record of their use within wholesale or retail payments. In addition, there is currently no track record of LEIs being a component of a transaction/payment. Today they are only used as a mechanism for reporting to regulators after a payment is completed. In addition, we wish to note that there is currently no clarity on the hierarchical relationship between LEIs within holding companies, which could lead to inaccuracies in application.

The consultation paper cites the need to identify all parties/agents in a transaction. However, for some payments there are many agents touching a transaction that are not readily identifiable. This raises a number of questions and challenges:
a.   How to ensure all those parties apply for an LEI and that it is captured correctly?
b.   Who is ultimately responsible for ensuring all parties are correctly identified within a given

transaction?

c.   Who monitors compliance, and how would that be done?

d.   Where there are non-Australia based agents that touch the transaction, will they also have to use LEIs and whose responsibility is it to ensure they are compliant?

As the majority of companies participating in payments will have client identifiers and structures already defined, there may be operational challenges, particularly in the short term, to accurately reflect the LEI structure against corporate hierarchies, leading to inaccuracies in identification and reporting. Such mapping and maintenance challenges run the risk of being exacerbated through numerous business events across players, such as mergers and acquisitions, unless clear structural and governance models are put in place to oversee LEI management.

4.1   Long-run payment system design considerations

Q10. Do you agree with the view that it is appropriate to maintain a dedicated HVPS alongside other payment systems, including the NPP?

☒ Yes
☐ No

If no, please explain your views.

Click here to enter text.

Q11 a) Does your organisation have any other views or preferences on how the long-term design of the Australian payments system should evolve?

☐ Yes
☒ No

Q11 b) If yes, how does choice of settlement method and system resiliency factor into this view?

Click here to enter text.

Q11 c) From your organisation's perspective, what other long-term design considerations should be factored into this migration project? Please frame your response from a strategic standpoint rather than focus on any short-term challenges or required investment.

Visa does not have any views on this.

4.2   RTGS message exchange models

Q12. If a separate high value clearing system is maintained for the ISO 20022 payments migration, what is your organisation's preference on the RTGS messaging model (i.e. Y-Copy or V-Shape) that should be adopted?

Please explain your views.

Visa has no preference on the RTGS messaging model, given that Visa's response to the consultation paper revolves around settlement processing rather than card transaction clearing processing. For clearing processing, Visa maintains its own system and is of the view that it will not be affected by the RTGS message exchange models.

5.1   ISO 20022 migration approach

Q13. Does your organisation agree with the proposed high-level stages of the ISO 20022 payments migration project?

☒ Yes
☐ No

Please explain your views.

Given significant time and investment will be required to migrate from the current to the new messaging standard, we would recommend that the RBA introduce a migration transition period. We would recommend a transition period which would allow participants to continue to operate on the existing messaging standard and, in parallel, migrate their systems to the new standard until the previous messaging standard is phased out.

Q14. Taking into account the advantages and disadvantages of each migration option, which approach do you support?

☒ Option 1 – Like-for-like followed by adoption of enhanced content
☐ Option 2 – Direct migration to enhanced content
☐ Other

Please explain your views.

To minimise service disruptions and associated implementation risks.

5.2   Managing the transition to new messages

Q15. What is your organisation's preferred approach for transitioning between existing message formats and ISO 20022?

☐ Big-bang
☒ Coexistence

Please explain your views.

ISO 8583 has played an important role in supporting the global card industry to achieve scale, security, reliability and ubiquity for the past 40 years. Throughout this time, Visa has been able to provide significant value for card payments. Visa recognises that, for us, running ISO 8583 and ISO 20022 in parallel for a significant time will have costs but also benefits. In our view, any migration of the processing capabilities in regard to the ISO 20022 card message set is best driven by the ecosystem's strategic and commercial appetite, combined with global coordination.

5.3 Project timing

Q16. Does your organisation face any impediments or constraints that are evident at this stage that would limit your ability to migrate to ISO 20022 within the 2024 target timeframe set out in this paper?

☒ Yes
☐ No

If yes, please explain.

The first commercial version of ISO 20022 card messaging standard, ATICA, is in development. Visa has been a very active participant in the development of ATICA. We anticipate it will be completed and formally approved by ISO within a few months. Once available, we will commence internal work to define Visa's Message Usage Guide for ISO 20022 and develop support for ATICA within VisaNet.

Q17. Are there other international ISO 20022 initiatives that you consider the Australian ISO 20022 payments migration timeframe should be aligned to? E.g. large domestic implementations in other jurisdictions.

Please explain your views.

None at this time.

Q18 a) Is your organisation affected by the timing of SWIFT's ISO 20022 migration for cross-border payments?

☐ Yes
☒ No

Q18 b) If yes, are there benefits to aligning the migration of domestic AUD payments messaging to cross-border payments migration for your organisation?

Click here to enter text.

5.4 Message harmonisation

Q19. Do you support the HVPS+ developed message guidelines being used as the starting point for the development and implementation of new ISO 20022 standards for Australia's HVPS?

☒ Yes
☐ No

Please explain your views.

This implementation approach appears to be consistent with the approach taken by other central banks, such as the Federal Reserve Bank in the US.

Q20. To what extent should other ISO 20022 standards for payments messaging (e.g. those used for the NPP) be considered?

Please explain your views.

The ISO 20022 messaging used by the NPP was defined prior to the publication of the ISO 20022 reference implementation developed by the real-time payments industry for RTP networks. We recommend that the NPP consider harmonising the NPP ISO 20022 messages with the ISO 20022 RTP reference implementation.

Q21. Are there any other areas of work that you believe are relevant in looking to achieve message harmonisation (to the extent possible)?

Please explain your views.

To maximise innovation and modernisation, we recommend that the RBA collaborate with key stakeholders on the change management process to manage ISO 20022 versions updates for its financial messaging as part of its ISO 20022 adoption.

6.1   Governance

Q22. Does your organisation have a preferred governance structure?

Please explain your views and include your preference for the roles of different parties in that governance structure.

Where there is a divergence in the change management processes from the existing global ISO 20022 standards, the new governance model should be carefully thought through to ensure it does not potentially increase the cost to develop and deploy or hinder global interoperability.
Additionally, increased domestic interoperability will inevitably lead to increased complexity in the governance model and rule setting, given the differences in the needs and arrangements of the payment types covered.

General feedback

Does your organisation have any general comments on an Australian ISO 20022 payments migration?

The version of ISO 20022 being referenced in the consultation paper is the non-card version for interbank payments. This movement to ISO 20022 is for core banking processing such as wire transfers, and therefore, is not impacting cards at this time. Visa's response to this consultation paper revolves around 'Settlement' and not 'Clearing Transaction Processing'. Visa maintains its own card transaction clearing processing, and ISO 8583 is the current message standard used for Visa card transactions in Australia.

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