



White Paper

What Financial Institutions Need to Know About the Federal Reserve
Change to ISO 20022



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As part of its payments modernization initiative, the Federal Reserve will soon require all transactions going through its Fedwire Funds Service to comply with the ISO 20022 standard. The transition is part of the Federal Reserve's desire to achieve better speed and efficiency for domestic and cross-border payments. The focus is on end-to-end improvement of the payment system – from origination to the point of receipt, including payment notification and reconciliation. Many countries have already adopted ISO 20022 as their standard message format for wire transfers, and the Federal Reserve is now adopting the standard in the U.S. as well.

ISO 20022 is a set of XML messaging standards across cash, securities, trade, card and foreign exchange transactions based on a shared data dictionary and business processes. It provides cross-border interoperability, the ability to consolidate payment platforms for operational efficiencies, and richer data, such as additional information regarding parties involved in a transaction. It is rapidly becoming the universal standard for wire transactions, a strategic product for financial institutions.

In a 2017 report titled "U.S. Adoption of ISO 20022," prepared by the Business Payment's Coalition ISO 20022 Education and Promotion Work Group, more than half of the institutions surveyed in the U.S. did not use ISO 20022 at all, while 28 percent were either not very or not at all familiar with it. While adopting a new standard can pose challenges, it is a necessary step for U.S. financial institutions.

Change Is Inevitable

The U.S. has been slow to adopt ISO 20022, in part due to its large, mature banking and payment infrastructure and the potential cost of adoption. Most of the world has already adopted the standard. That is one reason cross-border transactions and real-time payments, two fast-growing parts of any financial institution's business, largely use ISO 20022. ISO 20022 is already an international standard and is expected to handle 87 percent of the transaction value around the world within five years, according to an ISO 20022 Migration Study published in 2018 by the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

SWIFT plans to implement ISO 20022 for cross-border transactions by 2027 to complement its SWIFT gpi road map. While the Federal Reserve has determined there is a strong business case for adoption of the standard, other payment systems within the U.S. are moving to it as well: The new TCH Real-Time Payments infrastructure is built on ISO 20022, and NACHA, which administers the ACH network for low-value payments in the U.S., is planning a long-term shift to ISO 20022. Currently, U.S. ACH supports integration of the NACHA formats to ISO 20022, and there are discussions about conversion to the ISO 20022 format in the future.

The Transition

The Federal Reserve plans to start the transition to ISO 20022 in late 2020. To make the transition easier, the Federal Reserve has planned three phases:

- Phase 1, ISO Preparation by November 2020: Simplify and align the legacy Fedwire Application Interface Manual (FAIM) format in preparation for the ISO 20022 implementation
- Phase 2, ISO Like for Like from Q1 2022 through Q3 2023: Migrate Fedwire Funds Service participants to send and receive wire payments in the new ISO 20022 format. The Federal Reserve will convert financial institutions incrementally, and not all financial institutions will be on the new ISO 20022 standard at the same time. The Fedwire Funds Service will translate messages between financial institutions that are not on the same standard (as when one financial institution is on ISO 20022 and the other is on the legacy FAIM format). The legacy FAIM format will be retired at the end of this phase once all the financial institutions are on the ISO 20022 format
- Phase 3, ISO Enhancements by Q4 2023: All Fedwire Funds Service participants will be able to send full ISO 20022 messages

Planning Your Transition

For financial institutions, the planning for ISO 20022 will need to start long before the Federal Reserve's Phase 1 gets underway in November 2020. There are several key issues financial institutions need to consider.

First, there are new and changed data fields, such as:

- Financial institutions will need to eliminate business function codes CKS, DEP, FFR and FFS and use a single code for customer transfers (CTR)
- They will also need to eliminate select message tags — for example, {3100}, {3400} and {6100} to {6420} — and update select tags, including {4000}, {5000}, {5010}, {5100} and {5200}
- There will also be new recommended practices (for example, refuse a return request)
- Select data elements have new formats (for example, names can be 140 characters, addresses are structured)

These changes may require analysis of system interfaces (for example, to demand deposit account [DDA] systems or payment initiation channel systems) to ensure data is formatted and working correctly through all the systems that play a role in the financial institution's payment ecosystem.

Second, there are legal ramifications to consider. Many contracts in the industry are written with an established understanding of Fedwire/FAIM-specific terms. With

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ISO 20022, many of those terms will change. Financial institutions should make sure their wire agreements, contracts and similar documents are reviewed and updated to support the new terminology. For example, there are new parties in ISO 20022 messages, such as “ultimate debtor” and “ultimate creditor,” that do not exist in the legacy FAIM format.

Third, there are testing and certification considerations that must be met before each deadline. Financial institutions that wait until the last minute might find themselves dealing with delays.

Overall, the difficulty of the transition will depend on how much technology is integrated with the processing of outgoing and incoming Fedwire Funds Service messages, the degree to which financial institutions perform their own software development and the degree to which they rely on service providers to interface with the Fedwire Funds Service.

Future-Proofing Your Operations

Most financial institutions use a third-party platform to process wire transfers. These platforms will need to manage the ISO 20022 transition. Handling that conversion could be costly and time consuming if it is not done properly.

Dovetail Wire from Fiserv is an ISO 20022-native payment processing solution. Financial institutions using Dovetail Wire can avoid the need for a database restructure. Unlike many payment systems, all the ISO elements are already available on Dovetail Wire. Upgrading to Dovetail Wire for ISO 20022 could future-proof a financial institution’s payment system. A platform that handles multiple payment types can not only help improve processing efficiency and reduce

operating costs, but it can also be a foundation for competitive differentiation.

The transition to ISO 20022 is approaching rapidly. Financial institutions need to think about how they are going to update their systems and prepare for Fed-mandated testing today. Employing an ISO 20022-native payment processing solution can help ease the transition.

About Fiserv

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