

CMH TF

EXPLANATORY NOTE

28 November 2022

## Factors supporting the uptake of ISO 20022 messaging for SCoRE

*The Single Collateral Management Rulebook for Europe (SCoRE) standards state that ISO 20022 messaging should be implemented for Triparty Collateral Management (TCM), Corporate Actions (CA) and Billing Processes (BP). In 2019, AMI-SeCo considered that the full migration to ISO 20022 messaging could be achieved in a step-wise approach ('Waves'). There are two aspects that were considered: (i) the timing of the Waves by when the messages should be implemented and (ii) what should be done in each Wave to support the implementation of the messages. This note does not cover the timing of the Waves. Instead, the note considers the factors that support the adoption of ISO 20022 messaging and suggests next steps.*

### 1 Introduction

**AMI-SeCo agreed on a harmonisation agenda, supporting the adoption of ISO 20022 messaging for the specific areas of TCM, CA and BP.** The implementation approach for ISO 20022 messaging consists of several waves for CA and BP, i.e. in Wave 1 (I)CSDs/TPAs, Eurosystem central banks and Eurosystem counterparties will implement ISO 20022 messaging. In Wave 2, account servicers involved in the processing of CA and meeting events and billing processes will then adopt ISO 20022 messaging, i.e. account servicers should be able to offer/support ISO 20022 messages to clients that have the capability to use the ISO 20022 protocol. In a final Wave, with a full migration, legacy messaging standards for TCM and CA should be phased out. There are no legacy messages for BP (so no phase out is required for BP).

**AMI-SeCo agreed that an end-date for legacy messaging standards is important to foster the implementation of ISO 20022 messaging.** AMI-SeCo developed a roadmap for all relevant financial market stakeholders to adopt ISO 20022 messaging and interacted with SWIFT ([here](#)). As a follow up, additional input was collected at global level, with a survey on the adoption of ISO 20022 messaging (organised by the International Securities Services Association ISSA). On that basis, ISSA recommended

that further education is needed on factors that foster adoption of ISO 20022, while the industry should focus on sub-optimal areas (i.e. CA), improve interoperability and ways to leverage ISO 20022 for new technology ([here](#)). In a separate survey on CA innovation, input was collected by ISSA on drivers for improvements of corporate events, which were mainly related to the role of common data, an element which is also at the core of the SCoRE work ([here](#)).

**This note builds on the existing industry momentum on ISO 20022 implementation to consider the next steps to foster full adoption of ISO 20022.** Based on feedback from market participants, this note analyses the main factors that support a full migration to ISO 20022 messaging. It also analyses the exact scope of actors that would need to be part of the ‘close network’ of adopters. It also provides further attention to investors (asset managers and asset owners), which may have individual needs for interoperable solutions with other standards. It then suggests that the next steps that should be confirmed in the AMI-SeCo.

## **2 Factors that support the uptake of ISO 20022 messaging**

There are two main factors that can support the uptake of ISO 20022 messaging : (i) bring value at interbank level to sub-optimal areas and (ii) promote end to end consistency and transparency in the dissemination of information.

### **2.1. Better handling of CAs, BP and TCM**

**Most added value can be created in areas that are less automated or integrated, i.e. CAs, BP and TCM.** With the move to ISO 20022 as the single harmonised messaging standard, there will be more structured and richer information available in the message (more data and more structured workflows). This allows for more efficient end-to-end processing in the value chain (more structured and clear processing – one message one function). There are also benefits from reducing risks and drawbacks (fragmentation, divergence, costs and limitations). For CAs and TCM, the move to a single messaging standard should result in a smoother delivery of information needed for processing in a more structured and automated way, thereby allowing more automation together with a reduction in the risk associated with manual intervention. The availability of enhanced data in the ISO 20022 messages can support additional data analysis and potentially the offering of new/enhanced services.

### **2.2. Better interactions between the different layers in the custody chain**

**FMI in principle constitute the ‘first level’ of the custody chain, which will implement ISO 20022 messaging according to SCoRE standards.** FMIs offer corporate events and triparty services. FMIs will interact with the Eurosystem that will pass on messages to its counterparties in ISO 20022 (which are typically also direct participants of FMIs). Taken together, FMIs together with the Eurosystem and its counterparties are part of the ‘close network’ that will use ISO 20022 messaging in Wave 1.

**CSD links (possibly via sub-custodians) should be part of the ‘first level’ in the custody chain to provide standardised communication with ISO 20022 messaging.** CSD links (possibly via sub-custodians) act as entry point to local markets when they submit/receive instructions to/from the local (I)CSDs and they hold assets directly in the local market. The CSD links (possible via sub-custody providers) should therefore also be part of the ‘first level’ of the custody chain.

**From a network perspective, a coordinated approach is needed.** This can be illustrated by comparing the adoption of ISO 20022 in the payments area, which also focussed on adoption in the “Bank to FMI” and “Bank to Bank” layer. In the securities area, all communication sent from account servicers to account owners (and vice versa) should be migrating to ISO 20022 in Wave 2. In particular, account servicers should offer / support ISO20022 messaging (towards clients that have the capability to use the ISO20022 protocol) by Wave 2.

The third layer (the “Corporate to Bank” layer, including asset managers and asset owners) should also be closely involved and be encouraged to adopt. Attention is needed to meet particular investor needs, which could be addressed through the use of data dictionaries and translation services in particular towards investors.

Box 1: ISO 20022 for securities

Three layers	In securities area (i.e. TCM, CA)	
<b>1. Bank to FMI</b>	A strategic direction for a “Fully-fledged” use of ISO 20022.	<ul style="list-style-type: none"> <li>- Wave 1: ISO 20022 messaging will be used by FMIs, Eurosystem its counterparties</li> <li>- Wave 2: ISO 20022 messaging will be offered by account servicers to clients that have the capability to use the ISO protocol</li> <li>- Wave 3: ISO 20022 messaging will be used</li> </ul>
<b>2. Bank to Bank</b>		
<b>3. Corporate to Bank</b>	Encourage migration to ISO 20022.	Promote the use of common dictionary.

**The moment has arrived to confirm the strategic direction for full migration to ISO 20022 messaging.** The first layer actors, i.e. FMIs, the Eurosystem and its counterparties will migrate in a first Wave and are able to jointly agree to address the sub-optimal areas of CA and TCM. This will bring full standardisation and simplification. In wave 2, custodians (account servicers) should offer ISO 20022 messaging to clients (that have the capability for ISO 20022 standards) and offer the common data dictionary to investors.

**2.3. Better capturing data (including ‘source’ of the CA information from issuer/agent).**

**The key source of errors is lack of consistent data.** Erroneous data is driving risk and cost today. Current shortcomings related to CA data, when multiple parties need speedy access to a same set of data. Shortcomings relate to data sourcing, such as data enrichment, data cleansing (golden copy) and data interpretation. In addition, shortcomings are related to event management processing, such as internal processing/sending, external asset servicers processing and risk management.

**Key data elements (as defined in SCoRE) should be captured at the 'source' from the issuer/agent by issuer CSDs and subsequently passed through the chain.** At the entry point, SCoRE compliant data is needed for further processing by asset servicers. ISO 20022 messaging is considered to be the most efficient way to exchange and process the set of key data elements based on pre-defined information needs (i.e. key data elements agreed in SCoRE rulebooks) in an STP workflow. ISO 20022 messaging has the clear advantage of a single messaging format which can (i) bring additional functionality, (ii) carry more data and (iii) ensure consistency. FMIs have started asset servicing modernisation initiatives for their platforms, which are based on the ISO 20022 messaging and the key data elements of SCoRE.

#### **2.4. More integration / consistency for processing corporate events**

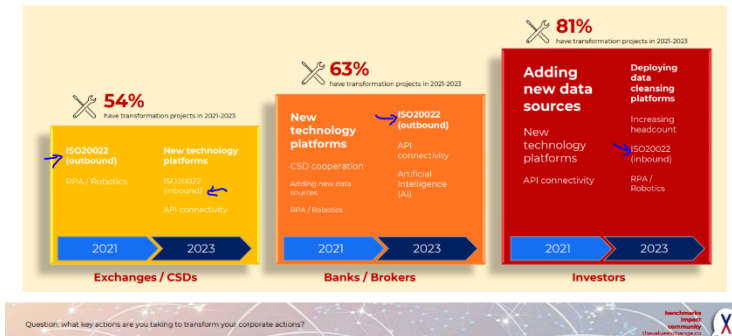
**ISO 20022 messaging has already been adopted for corporate events (i.e. General Meetings and Shareholder Identification).** The Shareholders Rights Directive 2 (SRD2) acted as a catalyst for Financial Market Infrastructures (FMIs) and their participants to adopt the new formats for general meeting messages (8 new ISO 20022 messages) and requesting and disclosing shareholder identification information (5 new ISO 20022 messages). Account servicers (intermediaries) have also gained experience with ISO 20022 messaging for General Meetings and Shareholder Identification. Finally, also at cross-border level (e.g. CSD links) the formats had to be adopted. This experience will contribute to the Wave 1 and Wave 2 adoption process.

**Future volumes should be taken into account (SCoRE, European Issuance Service (EIS)).** The migration of the Eurosystem together with FMIs and counterparties will drive adoption of ISO 20022 messaging format to a larger size. The scope of messages still to be adopted in the second wave of SCoRE in 2025 is small (as it is expected that messages will have been implemented by most actors by November 2023). This will bring a further push towards adoption of a single messaging standard.

**Innovative technology platforms are built on the foundation of ISO 20022 messaging.** As shown below (from an [ISSA survey](#) in 2021 from 230 respondents worldwide), the majority of actors have projects on Corporate Actions to adopt ISO 20022 messaging by 2023 (for inbound and outbound messaging) and have plans for technology platform upgrades. This supports our analysis above to continue the path of ISO 20022 messaging as the foundation for other/innovative solutions.

## What are we doing to cope?

Investors are leading the digitisation journey: but not this year



### 3 Next steps

As a catalyst for financial market integration, the AMI-SeCo should consider the next steps to promote the full adoption of ISO 20022 messaging format for CA and TCM. This note presents two main factors that support the uptake of ISO 20022 messaging, i.e. (i) bringing value to less integrated areas (CA and TCM) and (ii) using common data/identifiers for increased transparency.

As next step, based on the input of CMH TF members, AMI-SeCo members could discuss the strategy for a full migration towards ISO 20022 messaging for CA and TCM taking into account experiences from other areas (leverage the economies of scale and phase out the legacy messaging). The experiences from the implementation of the SCoRE standards for CA and TCM could help to bring about further considerations to streamline and enhance post-trade processes. With the involvement of the Collateral Management Harmonisation Task Force, the specific needs of different stakeholders could be addressed, such as intermediaries and investors