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Next Generation Standard for UK Retail Payments

Conclusions & Shaping the Way Ahead

30/11/2020

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Foreword – James Whittle, Director of Standards at Pay.UK

Thank you to everyone that took the time to respond to our Consultation and for your ongoing input and challenge. We received a great many quality inputs from developers, implementers and users, which was very helpful to shape our thinking. We know how important it is to be clear about our plans as we move through the transformative opportunity for UK retail payments powered by standards. Through this publication, and in particular the summary sheets setting out what the results of this Consultation mean for **you,** I hope you will have a clear sense of the way ahead and the progress made since February this year. If you take nothing else from this report, do please keep the headlines for our work set out in the summary sheets (p.11 – 15). These pages are to help you keep in mind what we will be doing, and, of course, to get you involved.

As many of you will be aware, we have continued to progress our delivery work and we have not stopped since the Consultation launched in February 2020. We published an update in September and have continued to meet with a wide range of stakeholders to shape the next phase of work. Our work with the Bank of England on standards continues and our coordination during 2020 has been deeper and more collaborative. That is set to continue into 2021 and beyond.

Critically, we have also heard from many of you that it is vital for us to keep challenging ourselves and the wider payments industry to be ambitious; to think continuously about the clarity of the outcome that a standard will enable and how that will benefit participants and end-users through the lens of innovation, powered by data. Setting the standard for the next generation of retail payments is a once-in-a-generation opportunity. We are passionate about getting it right to unlock the power of transformation.

Introduction

The Consultation 'Next Generation Standard for UK Retail Payments'[1] closed on 28 April 2020, following a four-week extension due to COVID-19. Setting standards is at the heart of what we do at Pay.UK and the Consultation sought to solicit feedback from different stakeholder groups on three specific areas:

A. Recommended direction that we are proposing on the adoption of ISO 20022 for the clearing and settlement capability to be enabled by the New Payments Architecture (NPA)[2];

B. Foundational technical details for the ISO 20022 message standard including our technical design and ISO 20022 readiness approach; and the

C. Future direction on concepts that require a degree of standardisation across the payments ecosystem (i.e. from the central clearing and settlement hub to end-users).

Pay.UK received 40 responses in total from a range of financial institution participants, service providers, end-user representatives and other interested parties. We would like to use this opportunity to thank respondents for taking the time to provide their responses, particularly at this time of uncertainty and wider health considerations.

In September, we published a 'mid-term update' on the Consultation[3], summarising the responses we had received, sign-posting for industry what our potential next steps could be, and providing indicative timelines for our proposed release of technical standards collateral for industry review and feedback.

This publication documents our final conclusions and next steps. The direction we have taken in each section is often built upon where the majority opinion resided, being mindful that any proposed approach considers and balances each of Pay.UK's published strategic objectives: Robust & Resilient, End-User Focused, Agile & Innovative, Accessible, Efficient, and Excellent People.

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[1] https://www.wearepay.uk/next-generation-standard-for-uk-retail-payments/
[2] https://www.wearepay.uk/new-payments-architecture-programme/
[3] https://www.wearepay.uk/next-generation-standard-for-uk-retail-payments-consultation-update/

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Executive Summary

The Pay.UK Consultation "Next Generation Standard for UK Retail Payments" received a significant amount of engagement across a range of industry stakeholders. It evidenced a substantial interest and enthusiasm from these different groups in ensuring that standards are set end-to-end and work for everybody, driving payment and non-payment related services forward.

This support was provided against a backdrop of growing international support and momentum for secure and frictionless payments. In particular, the recent Stage 3 report from the Committee on Payments and Market Infrastructures (CPMI) has explicitly stated the need for both private and public sector bodies to help drive this forward together – a key 'Focus Area' of this was the need for "increasing data quality and straight-through processing by enhancing data and market practices."

Working closely with End-Users

Since the closure of our Consultation in April, we have supplemented the responses to it with additional bilateral end-user meetings, comprising industry bodies, small businesses, corporates, and charity representatives. Examples include the UK Government's Tax Office (HMRC), the Confederation of British Industry (CBI), members of our End-User Advisory Council (EUAC), and the Business Application Software Developers Association (BASDA). The engagement with these groups has been extremely positive. All of them have been very keen for Pay.UK to drive the evolution and application of standards for retail payments, and, where appropriate, aid them in unlocking the challenges that they and their constituents face on a daily basis. A significant proportion of this engagement has been, and continues to be, Pay.UK listening to the outcomes that end-users would like to realise and exploring with them how standards can enable this; many of these end-users are not familiar with standards and the potential benefits (both payment and non-payment related) that they can unlock.

A joined-up approach between the retail and high value payment systems

As we develop our approach to both the technical implementation of the ISO 20022 standard into the New Payments Architecture (NPA) and our longer-term strategy for standards, we remain aligned closely to the Bank of England as operator of CHAPS and RTGS (hereafter referred to as "the Bank"). This seeks to ensure that, as appropriate, any technical publications related to standards and how we will implement them (e.g. mandatory or optional data fields) will be similar. This, again, was very strongly supported by respondents to the Consultation. To support us in this endeavour, we have invested in resource that will allow us to coordinate and communicate effectively on the approaches to standards between the two institutions. Moreover, the Standards Advisory Panel (SAP)[4] will continue to provide robust, external challenge and direction from a strategic lens to help steer and reinforce the collaborative approach between the retail and high value payment operators. Indeed, following feedback it has received, the Bank will be publishing its updated policy position through the conclusions to its Industry Review at the end of 2020, supporting our joint-approach to the development of the standard.

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[4] https://www.bankofengland.co.uk/-/media/boe/files/payments/sap-terms-of-reference.pdf

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Supporting and engaging on the technical implementation of standards

We are identifying and developing the necessary technical artefacts (i.e. schemas, Implementation Guides, and market guidance) that we will need to publish for the NPA Propositions: Retail Banking Payments, Bulk Credit Payments, Direct Request, Mandate Management, and Participant to Participant. To ensure that these meet the expectations of our participants and solution providers, we have initiated a "Community of Developers" (a forum for Pay.UK to engage with standards developers). We have used this group to test our assumptions regarding the implementation of the ISO 20022 standard and to help identify unforeseen constraints and challenges that may exist. As such, we have received strong support and engagement from its members, with some suggesting it could be used more broadly in helping industry solve standards implementation challenges together. To supplement this and to help industry plan for the implementation of the ISO 20022 standard into the NPA, we have provided indicative timelines, with a target date of H2 2021 for an initial publication of the schemas and implementation guides for Retail Banking Payments.

We are always very open to having new members join the Community of Developers. Should you be interested in joining us, please contact standards@wearepay.uk.

A strong sentiment for exploring opportunities now

There is an overall sentiment from industry groups that the time for further challenging the design of standards is now; to focus on proof of concepts and to bring to life the innovation opportunities that only standards can enable. Indeed, some respondents have been keen to emphasise that in order to realise the "network-wide effect" of these benefits, it is incumbent upon Pay.UK to be ambitious and to push out further into the Payments ecosystem, to energise it, focus on outcomes and, most importantly, provide the platform for collaboration on standards innovation. Raising awareness and communicating the potential broader societal improvements that standards can enable will be a key outcome.

We intend to keep industry apprised periodically of our progress through our external engagement fora and frequent 'Standards Update' publications that will be available through our website.

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Strategic Direction on Standards

Since the publication of our Consultation in February 2020, there have been a number of significant UK and international developments affecting standards. Some of these will influence Pay.UK's plans for delivery of the NPA and its strategic approach for how it shapes and sets standards for payment and non-payment services.

This year, the Financial Stability Board (FSB), in conjunction with the CPMI, published several reports in a three-phased approach[5][6][7]: evaluating the existing cross-border payment arrangements, a proposal of several building blocks to improve on the current cross-border setup, and a roadmap for how this development could be implemented. The review identified 7 major frictions to cross-border payments and 19 building blocks (including regulatory, legal, infrastructure, etc.) that would seek to remediate these challenges. One of these building blocks was to adopt a harmonised version of the ISO 20022 messaging format, noting that poor quality data and its limited standardisation made cross-border payments more complex – affecting speed, price and transparency.

Furthermore, a "Call for Evidence" was initiated by the Treasury department of the UK government in July[8]. The report sought to elicit responses to questions on whether the UK government's aims to drive change across the payment networks over the last 10 years have been achieved. Within this report, the huge significance of using ISO 20022 was noted, including its ability to enable interoperability between CHAPS and the NPA.

The Bank also issued a public Consultation in the summer seeking feedback on the near-final enhanced ISO 20022 message schema, and an update on the progress against its policy objectives that will be delivered via ISO 20022 messaging – similar to, and linking into, the Building Blocks described in our Consultation. In October, the Bank published its revised CHAPS ISO 20022 migration approach and final schemas[9] and, as noted above, will shortly be publishing its updated policy position following feedback received through its Industry Review, supporting our joint approach to the development of the standard.

These reports, in addition to many others widely available, underline the importance that standards have in helping to deliver short term, meaningful solutions and longer term interoperable cross-border payments. The significance of the migration to ISO 20022 should not be underestimated and it is important to be cognisant of the benefits and impacts to participants and end-users that the change will bring.

Our Consultation asked several questions regarding the role of the Standards Authority at Pay.UK in the future direction of standards. Consequently, there was strong encouragement from respondents that the Standards Authority should play an active role in setting and facilitating the development of standards. In particular, there was a strong steer for Pay.UK and the Bank to continue working closely together, driving development of the UK standard for the retail and high

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5   https://www.fsb.org/wp-content/uploads/P090420-2.pdf

6   https://www.bis.org/cpmi/publ/d193.htm

7   https://www.fsb.org/wp-content/uploads/P131020-1.pdf

8   https://www.gov.uk/government/consultations/payments-landscape-review-call-for-evidence

9   https://www.bankofengland.co.uk/payment-and-settlement/rtgs-renewal-programme/consultation-on-a-new-messaging-standard-for-uk-payments-iso20022

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value payment systems. In particular, there were requests that timelines align where possible and that technical publications should look and feel the same between the two organisations as appropriate (noting that this will not always be possible given that the roles, remits, and end-users of each institution will not always overlap).

Since the Consultation closed, Pay.UK's Standards Authority has also commenced collaborating with UK Finance and other industry representatives, including the Bank, to develop the broader, strategic approach for how payment standards are managed and governed. This work is currently in its infancy but incorporates Retail payments, High Value payments, Open Banking and Card standards, and seeks to drive a common strategy for standards.

Incorporating the views of End-Users

Subsequent to the closure of the Consultation, we have continued to hold bilateral meetings with end-user groups and elicited feedback from Pay.UK's End-User Advisory Council (EUAC) regarding our strategic role in shaping standards. The overarching view is one of strong support and encouragement to continue to engage with businesses, corporates and other end-users to help raise awareness of standards and explore how they can unlock benefits for them. Consequently, we have already started engagement with several Communities of Interest: HMRC, the Confederation of British Industry (CBI), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Business Application Software Developers Association (BASDA). Although only nascent, the feedback we have received from these sessions has been very positive, with a strong engagement from end-users to want to understand how standards can unblock challenges for them.

Furthermore, Pay.UK is mindful of its responsibility to Environmental, Social and Corporate Governance (ESG) and takes this seriously; we are keen to demonstrate meaningful progress on this to industry. In addition to "business" end-users, we are also engaging with charity groups to understand the day-to-day obstacles that different sectors of society face. In particular, we have started to explore specific examples of challenges that standards could potentially unlock: increasing clarity of bank statements for cognitively challenged persons, and reducing the manual processing associated with Gift Aid. Pay.UK will work with these groups to identify and prioritise real outcomes that standards could help realise.

These end-user and Consultation responses have supplemented the views we have heard from the Standards Advisory Panel (SAP) where, with the Bank, we have received the steer to continue to develop standards through (where appropriate) a harmonised set of technical standards publications, and to continue to outreach to these Communities of Interest.

To support this work, one of the tools the Standards Authority uses for dissemination of information (as well as for static message validation) is the Standards Source Portal. As noted below, there was extremely strong support for the use of Standards Source and its role in the provision of standards artefacts. Furthermore, there was encouragement to develop it further from a strategic perspective: the provision of technical discussion forums, documentation at a "business/product" level, linking to other global standards repositories, and broader educational standards materials were examples proposed that would set a revised, strategic direction for the portal.

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In summary, a large number of industry groups have proposed that Pay.UK plays an increasing role in raising awareness about the transformation potential powered by standards; to explore what outcomes and benefits that can be unlocked. As such, in 2021, we will look to further articulate our strategy for how we can continue to engage and grow our communities of interest to 'bring to life' key opportunities that can only be realised by common standards.

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What do the results of this Consultation mean for **you**?

For those who will be implementing ISO 20022 for their institutions…

We received a large number of responses from developers and implementers of ISO 20022 at a range of organisations. In summary, there was a need from this community to have:

- Clarity over when we would publish our technical standards artefacts so that they could consider and plan for implementation in an appropriate time-span. Furthermore, they wanted to know what this technical "collateral" would look like and have the opportunity to comment on them as they were being developed.

- Interoperability with the Bank so that integration with both the high and low value payment infrastructures (from a standards perspective) would have the same approach wherever possible. Additionally, there was a consensus view that any associated technical artefacts should, as appropriate, be similar to what was produced by the Bank for CHAPS (and RTGS).

- A good understanding of the timelines required for implementation of the standard and that Pay.UK needed to remain cognisant of the need for the developer community to have as much time as possible to implement effectively.

- Increased engagement by Pay.UK at a technical level to ensure that constraints, dependencies and challenges in implementation were identified in advance if possible.

- Access to a testing environment so that "readiness" could be addressed as early as possible.

- Business context in which the payment journeys will sit in order to shape the processes and data that would be used.

We have already started:

- The development of a draft purpose code list (a subset of the ISO 20022 External Code List) with the Bank, covering wholesale and retail payments.

- Working with the Bank on using the ISO 20022 External Code List to ensure international alignment, and where appropriate, adding any codes that may be missing and required for inclusion in the ISO 20022 standard against our objectives on interoperability.

- Identifying the ISO 20022 messages we believe will be necessary for Retail Banking Payments and the Bulk Payment propositions and will continue to develop the overall NPA core message set in line with the payment propositions and related non-payment scenarios.

- Engaging regularly with our new Community of Developers forum to share our thinking and elicit feedback on the challenges associated with the practical implementation of the standard.

- A review of additional documentation that, in the meantime, might usefully be added to Standards Source over and above the current technical documentation.

- Developing and enhancing our testing suite, in advance of industry "readiness".

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Our Action Plan is to:

- Refine and detail the payment and non-payment journeys as part of the NPA standard to demonstrate the exact usage of the data fields and building blocks within them. We will be focusing on Retail Banking Payments as the first priority.

- Together with the Bank, engage with industry to develop an appropriate plan for the usage of structured and unstructured data, and phasing out the use of the latter.

  o However, if industry decides to maintain the functionality for unstructured data, we will develop and establish a standards policy direction to highlight why this remains necessary and any next steps or dependencies in that regard.

- Publish the draft Purpose Code list on Standards Source and, with the Bank, further consult on it into 2021.

- With industry, build upon the existing work on the GPI pilot, to develop the practical approach to adopting and using the UETR (including ascertaining issuance, uniqueness and interoperability within the NPA and with SWIFT for payments going to or coming from overseas).

- Not be implementing a 'like-for-like' approach to ISO 20022 messages.

- Work with the Bank to develop appropriate market guidance for specific transaction types.

- Not offer translation data services. However, we will remain open to the possibility of publishing authoritative data model mapping information to support reliable standard data translation services by the market.

- Implement the ISO 20022 Business Application Header (Version 2 of the BAH) with every message.

- Publish our technical standards collateral to industry on the dates noted below.

- Review our strategic direction with respect to Standards Source and publish this in 2021.

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For those who will be innovating and providing solutions to their clients...

A number of responses to the Consultation were from solution providers including Enterprise Resource Planning (ERP) services. In summary, they highlighted a need to have:

- Considered interoperability with the Bank and other global Financial Market Infrastructures wherever possible.

- Example use cases identified and explored so that they could understand how their solutions may work for the benefit of their clients. These use cases would need to be built on outcomes that end-users (i.e. their clients) would want to achieve.

- Clarity on which data fields would be mandatory and optional for completion within the payment messages. Furthermore, how this data would be verifiable to realise outcomes would need to be determined.

- Increased facilitation and leadership from Pay.UK in bringing groups of solution providers together so that industry challenges could be solved collectively.

- Engagement on the use of Remittance data and how this could be coordinated and determined.

We have already started:

- Engagement with the Global LEI Foundation (GLEIF) about how we can increase awareness and detail of the Legal Entity Identifier (LEI), as well as exploring what other benefits could be enabled by this standard, such as trust and identity verification.

- Bilateral engagement with industry bodies and communities of interest, such as HMRC, the CBI, and accountancy software providers to build practical use cases for Structured Data to evidence how to unlock value for participants, businesses and end-users more generally.

- Working with the Bank on using the ISO 20022 External Purpose Code List to ensure international alignment, and where appropriate, adding any codes that may be missing and required for inclusion in the ISO 20022 standard against our objectives on interoperability.

Our Action Plan is to:

- Continue working with GLEIF to facilitate streamlining the adoption of the LEI by participants who access the NPA directly.

- Engage with the Bank and the Standards Advisory Panel to consider what action could promote the understanding of the value for adopting the LEI more widely in the UK.

- Work with industry as part of the NPA standard development to focus on the cases to use structured data in specific payment journeys.

- Together with the Bank, engage with industry to develop an appropriate plan for phasing out the use of unstructured data.
  - However, if industry decides to maintain the functionality for unstructured data, we will develop and establish a standards policy direction to highlight why this remains necessary and any next steps or dependencies in that regard.

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- Publish the draft Purpose Code list on Standards Source and, with the Bank, further consult on it into 2021.

- Validate the choice of purpose codes and how they will be used within the payment journeys as part of the NPA standard.

- Develop our plan with industry on how purpose codes will be applied in practice, including verifying the veracity of the entered data and where responsibilities lie.

- Refine the payment journeys as part of the NPA standard to detail the enhanced characters to be used within specific data fields, and explore how data can be treated consistently between parties in the payment chain.

- Launch a Remittance Data Standards Task Force involving business application software developers, ERP providers and representatives from the Open Banking ecosystem. This group will consider the benefit of standardising the usage of enhanced remittance data for UK interbank payments to meet the needs of business end-users.

- Review our strategic direction with respect to Standards Source and publish this in 2021.

- Identify key industry stakeholders to help Pay.UK and the Bank drive the development of the liquidity interface standard.

- Engage Payment Service Providers (PSPs) and other industry stakeholders on the specific challenges associated with Exceptions and Investigations and develop a plan for how the standards could be used to resolve these issues.

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For those who are businesses, charities and other end users…

We received feedback from different end-user groups and from our End-User Advisory Council (EUAC) regarding our strategic role in shaping standards. The overarching view is one of strong support and encouragement to continue to engage with businesses, corporates and other end-users to help raise awareness of standards and explore how they can unlock benefits for them. In summary, they highlighted a need to:

- Explore how standards can improve their business processes and realise opportunities.

- Have certainty that a payment had reached its intended recipient without the need for a separate manual process to "check".

- Be able to send extra information about a payment if needed (e.g. increased clarity on the purpose of a payment).

- Increase protection against fraud (e.g. push payment and invoice fraud).

- Have the ability to streamline processes (e.g. STP and automated accounts reconciliation).

- Help manage cash flow and liquidity more effectively.

We have already started:

- Bilateral engagement within industry bodies and communities of interest, such as HMRC and Open Banking, to build practical use cases for Structured Data to prove how to unlock value for participants, businesses and end users more generally.

- Engaging with HMRC, the CBI, and accountancy software providers, to assess their requirements for the use of enhanced remittance data with proof of concepts in mind, and explore other opportunities that standards can unlock.

- Engaging with corporate treasurers through bilateral meetings to understand the liquidity challenges that could be unlocked with the liquidity interface.

Our Action Plan is to:

- Commence engagement with charity stakeholder groups to explore potential opportunities that could be unlocked through the use of standards (e.g. streamlining Gift Aid processing).

- Engage with the Bank and the Standards Advisory Panel to consider what action could promote the understanding of the value of adopting a Legal Entity Identifier more widely in the UK.

- Engage with and identify, more widely, key outcomes and benefits that could be unlocked for businesses and end-users through the use of standards.

- Continue our proposed approach for enhanced characters to enable the exchange of a wider set of data including email and website addresses with a payment.

- Develop a plan with key industry stakeholders on how we prioritise aspects of development for the liquidity interface to help businesses with liquidity management.

- Launch a Remittance Data Standards Task Force involving business application software developers, Enterprise Resource Planning providers and representatives from Open Banking. This group will consider the benefit of standardising the usage of enhanced remittance data for UK interbank payments to meet the needs of business end-users.

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Next Generation ISO 20022 for UK Retail Payments

The Consultation was structured into three distinct parts:

- Section A: recommended direction,
- Section B: foundation technical details, and
- Section C: future direction concepts.

This publication follows the same outline and will address, within each section:

- A summary of the overall responses to each question;
- A summary of what Pay.UK may have already initiated in response;
- Pay.UK's proposed further next steps.

SECTION A: Recommended direction that we are proposing on the adoption of ISO 20022 for the clearing and settlement capability to be enabled by the New Payments Architecture.

This section of the Consultation set out our approach to implementing ISO 20022 to enable the core clearing and settlement capability of the NPA.

As noted in our 'mid-term update', Pay.UK received widespread support for the direction proposed. We will continue to prioritise the development of the ISO 20022 messaging standard for the NPA core clearing and settlement capability, working closely with the Bank to ensure close alignment with CHAPS.

As we progress this development, a few respondents noted that it was important to be mindful of the risks that such a transformative change would bring; most notably, the transition from the current infrastructure (which is a challenge broader than standards) and that any potentially expensive change that this would entail would require a depth of analysis via clearly worked examples and business use cases.

There was also strong support for the use of the Building Blocks and the benefits it could bring: Legal Entity Identifiers (LEIs), Structured Data, Purpose Codes, Enhanced Characters, Enhanced Remittance Data, and the Unique End-to-End Transaction Reference (UETR). However, how the Building Blocks would be implemented (i.e. which aspects would be mandated and how this would be controlled) would require further discussion with industry. Furthermore, some respondents noted that participants (in conjunction with operators and regulators) would need to consider any regulatory or legal requirements as well as broader consequences associated with carrying additional, supplementary data in a message.

In summary, every submitted payment message must have the ability to carry all of the Building Blocks described below.

Legal Entity Identifiers (LEIs)

As noted in the Consultation, Pay.UK plans to mandate the use of LEIs in payments between institutions directly accessing the NPA. Therefore, we will use the LEI as a standardised identifier of

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a participant legal entity. In practice, this will mean that all participants using the NPA and its services will need to be identified using a LEI. In instances where sub-entities of an organisation submit payments directly to the NPA, each of these will also require an individual LEI.

The majority of respondents agreed with this approach, citing the benefits around improved Anti-Money Laundering (AML) and fraud prevention, but tempered by the fact that LEIs alone would not be able to solve challenges around economic crime.

The wider use of LEIs was also raised by a number of respondents. Specifically, if the LEI were more widely adopted throughout the retail Payments ecosystem, it would be a valuable source of verifiable identity data which could significantly reduce challenges such as misdirected payments and invoice fraud, and simplify verification of digital identities as a reliable, verifiable data source. However, several respondents noted the usage of LEI in this wider context was a much broader issue which requires coordinated action in order to resolve challenges around effective adoption, registration and governance. We therefore, at this stage, do not propose that LEIs should be mandated for all legal entities within the wider end-to-end retail Payments ecosystem, only for institutions accessing the NPA.

What Pay.UK intends on taking forward

> We will mandate use of the LEI by those institutions directly accessing our network on Day 1 of the NPA, ensuring alignment with the Bank's approach for accessing CHAPS (RTGS).

We have already commenced:

- Engagement with the Global Legal Entity Identifier Foundation (GLEIF) about how we can increase awareness and detail of the LEI, and explore what other benefits could be enabled by this standard such as trust and identity verification (similar to the Financial Stability Board recommendation on establishing unique identifiers with proxy registries).

Going forward we will:

- Continue working with GLEIF to facilitate streamlining the adoption of the LEI by participants who access the NPA directly.

- Refine and detail the payment and non-payment journeys as part of the NPA standard to demonstrate the exact usage of LEIs within them.

- Engage with the Bank and the Standards Advisory Panel to consider what action could promote the understanding of the value of adopting the LEI more widely in the UK.

- Continue to outreach to participants and businesses to understand the outcomes that could be unlocked through the adoption of the LEI, in conjunction with other (enhanced data) Building Blocks.

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Structured Data

The Consultation explained our proposal for ensuring that the messages had the ability to carry Structured Data, principally Structured Addresses and Structured Remittance Data. As we have previously stated, Pay.UK has focused on phasing out unstructured free format data in the future to ensure that potential sources of friction in the payments journey are removed where possible.

As noted in our 'mid-term update', this ambition was widely appreciated directionally. Respondents noted the benefits of structured data to participants, businesses and other end-users. These centred around improved accounts reconciliation, Straight Through Processing (STP), enhancing the monitoring and controls around economic crime, structured invoice numbers/reference data, and increased clarity for recipients of payments. Other respondents have suggested that with the future of banking processes relying heavily on machine-readable data, the ability to utilise structured address fields should be enabled at the foundation of the NPA.

There was, however, mixed feedback on the recommendation to phase out unstructured addresses over the long term and a raising of awareness of the potential unintended consequences in doing so. Some respondents felt that the structured address should not be mandatory because its use in retail payments at present is very limited, and that providing this information could prove onerous for end-users and may not add value. Indeed, it is not used for current retail payments (e.g. in Faster Payments Service and Bacs) and thus may be viewed as introducing additional friction into the payment journey.

Moreover, concerns around how structured data would be managed across the entire payment journey were raised.

In our Consultation, we proposed that, to support the use of the NPA standard, we would not be mandating the use of structured address data at this stage, but that the NPA will *support* the use of the structured address data. Our implementation guides would then recommend the use of that structure as and when that data is required. Following the responses to our Consultation, we maintain our approach on this. From a practical perspective, this means that in those circumstances where address data needs to be included in a domestic payment initiation (for example, as required by a payee), it will mandatory for it to be completed in the prescribed, structured format.

Where addresses are passed through from overseas, they will need to be passed through "as received" (e.g. structured or unstructured). By 2025, we expect that the adoption of a standard structured address by other Financial Market Infrastructures (FMIs) and by the interbank correspondent networks will be a significant milestone. Because of this, and aligned with our objectives on interoperability, the structure of an address for the NPA standard will adhere to the ISO definition and, as appropriate, will be in line with the adoption by the Bank.

What Pay.UK intends on taking forward

> We will ensure that the NPA will support the use of structured data – address and remittance – and that the Implementation Guides will advise in what circumstances the data is mandated.

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We have already commenced:

- Bilateral engagement with industry bodies and communities of interest, such as HMRC, to build practical use cases for Structured Data to prove how to unlock value for participants, businesses and end-users more generally.

Going forward we will:

- Work with industry as part of the NPA standard development to focus on the cases to use structured data in specific payment journeys.

- Together with the Bank, engage with industry to develop an appropriate plan for phasing out the use of unstructured data.

  o However, if industry decides to maintain the functionality for unstructured data, we will develop and establish a standards policy direction to highlight why this remains necessary and any next steps or dependencies in that regard.

- Continue to outreach to participants and businesses to understand the outcomes that could be unlocked through the adoption of Structured Data, in conjunction with other Building Blocks.

Purpose Codes

We noted in the Consultation that the ISO 20022 standard allows for specific data to be exchanged using standard codes. One such benefit is to identify the purpose of a payment ("Purpose Codes"); helping participants and their customers identify what a payment is used for.

We stated that Pay.UK will make purpose codes mandatory for certain transactions types, such as housing transactions. More broadly, for interoperability reasons and where appropriate in certain circumstances, some purpose codes which are set by the Bank to be mandatory for CHAPS would also need to be mandatory for the NPA.

In our 'mid-term update', we noted that respondents agreed that purpose codes should be mandatory for specific payment transaction types. Specifically, they highlighted the benefits around: the clear identification of types of payments that could be prioritised if required (e.g. welfare or pensions), aiding monitoring and data analytics, and helping decision making associated with financial crime controls.

However, several respondents stated that it was important to understand the plan for adoption so that participants could prepare for the necessary technical changes that needed to be made (including how different channels would present Purpose Codes) and how customers would have to understand and "buy into" the benefits of introducing this data. From a longer-term perspective, some respondents noted that the purpose code list needed to be future-proofed, infrequently amended, and, when changes did occur, relatively easy to do so that had a limited impact on technical system changes. For clarity, Pay.UK and the Bank are not intending to

introduce new codes in addition to the international list. Instead, it is our intention to submit change requests to augment the international list, if this is deemed necessary.

One respondent suggested that the use of Merchant Codes in ISO 18245 could be used as a starting base for the development of Purpose Codes. However, Pay.UK and the Bank have decided to use the external ISO 20022 code list as the basis, as ISO 18245 only describes the retail merchant type and would not facilitate interoperability between the NPA and RTGS.

It was also noted that in order for purpose codes to be reliable as additional information, the data entered would need to be verifiable. For example, using purpose codes as part of a fraud mitigation control would require participants to have a significant degree of comfort that the purpose code being entered was correct and could be trusted. This also raised questions from some respondents about who would: a) be responsible for entering the purpose code (e.g. their customers), and b) be responsible for validating it (e.g. the submitting institution).

What Pay.UK intends on taking forward

> We maintain that Pay.UK will make purpose codes mandatory for certain transactions types and align with the Bank where appropriate to ensure interoperability. Purpose Codes will be available in the standard on Day 1 of the NPA.

We have already commenced:

- The development of a draft purpose code list (a subset of the ISO 20022 External Code List) with the Bank, covering wholesale and retail payments.

- Working with the Bank on using the ISO 20022 External Code List to ensure international alignment, and where appropriate, adding any codes that may be missing and required for inclusion in the ISO 20022 standard against our objectives on interoperability.

Going forward we will:

- Publish the draft Purpose Code list on Standards Source and, with the Bank, further consult on it into 2021.

- Further engage with stakeholder groups to:

    o validate the choice of codes and how they will be used within the payment journeys as part of the NPA standard.

    o identify, more widely, key outcomes and benefits that could be unlocked for businesses and end users through the use of standards.

- Develop our plan with industry on how purpose codes will be applied in practice, including verifying the veracity of the entered data and where responsibilities lie.

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Enhanced Characters

In our Consultation, we stated that the ISO 20022 standard could be used to exchange a wide range of languages and special characters including, for example, non-Latin alphabets. However, to ensure optimal interoperability, the NPA standard will not support the full Unicode character set encoded using UTF-8. Instead, we will follow the CBPR+ guidelines for the character set and the fields that can contain enhanced characters. We also stated that we envisaged that certain special characters would only be accepted in the name and structured address fields, remittance data, and where an email address, website, or alias should be provided. Pay.UK and the Bank are aligned to both CBPR+ and HVPS+.

In our 'mid-term update', we stated that respondents supported this change, with some noting that the Bacs Standard 18 has been very limiting over the years. Several respondents noted the appeal and benefits of introducing new characters (such as the @ and non-Latin alphabet) will have for end-users. This creates space for innovation and future-proofs the standard.

However, some respondents noted that the use of more extensive standardised characters will impact participants' systems, particularly on operations such as sanctions screening for non-domestic payments and that consideration around the timing and phasing in of a new character set would be needed.

Pay.UK will consider carefully the introduction of new characters, aligning, where appropriate, to the adoption by other FMIs.

What Pay.UK intends on taking forward

> We maintain that we will not mandate participants to have to implement the full Unicode character set. We will continue our proposed approach of recommending a restricted Unicode character set (informed through industry stakeholder engagement) that would enable the exchange of a wider set of data, including a more accurate representation of names, email and website addresses.

Going forward we will:

- Refine the payment journeys as part of the NPA standard to detail the enhanced characters to be used within specific data fields, and explore how data can be treated consistently between parties in the payment chain.

Enhanced Remittance Data

Remittance data is the only major data carrying capability for end-users (payer and payee) to exchange information linked to the payment.

In our Consultation, we stated that the NPA standard will support structured and unstructured remittance data and that we expected that the use of either type will be mutually exclusive per payment message (i.e. either structured or unstructured, but not both). Our vision was that

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unstructured remittance data will be phased out, consistent with our recommendation to use structured data.

We had noted that free text within the structured remittance field would be limited to 420 characters to be interoperable with the Bank. However, this has now changed; this field can only be used to carry additional information that complements other structured remittance information, and will not be used to carry unstructured information.

As noted in our 'mid-term update', respondents and end-users were very supportive of enabling this functionality noting the benefits around reconciliation, invoice management, and bank statement clarity for those end-users requiring additional assistance, to name just a few.

This support was rightly balanced against the fact that being able to send and receive additional data will have operational implications, require investment and must include privacy by design. Input from participants, accountancy software providers and other users of this data will be critical to shape how the standard can best enable this opportunity.

What Pay.UK intends on taking forward

> We maintain that we expect to mandate remittance structures in our Implementation Guides and that we will work with participants and other stakeholders to ensure this is appropriate and proportionate to the benefits it will enable.

We have already commenced:

- Engaging with HMRC, the CBI, and accountancy software providers to assess their requirements for the use of enhanced remittance data with proof of concepts in mind.

Going forward we will:

- Determine, with industry, the usage of structured and unstructured remittance data within the payment journeys as part of the NPA standard.

- Socialise, more widely, key outcomes and benefits that could be unlocked for businesses and end-users through the use of standards.

- Launch a Remittance Data Standards Task Force involving business application software developers, ERP providers and representatives from Open Banking. This group will consider the benefits of standardising the usage of enhanced remittance data for UK interbank payments to meet the needs of business end-users.

Unique End-to-End Transaction Reference (UETR)

We noted in the Consultation that this enhancement provides a standardised identifier reference which can be used to track and trace a payment end-to-end, similar to a tracking number on a parcel. We stated that we would use the UETR as part of our message referencing scheme to ensure

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that there is complete traceability and auditability of each individual payment transaction across the NPA infrastructure.

In our 'mid-term update', we noted that respondents welcome the use of the UETR. Indeed, end-users we engaged with noted that certainty of a payment's status (without the need to manually check with the recipient) was one of their top requirements and were very receptive of our proposal. Other respondents noted the business efficiencies associated with accounts reconciliation that a UETR would help provide.

Some respondents to the Consultation also asked practical questions about the usage of the UETR (including as part of a Payment Originating Overseas), how the identifiers will be issued, how uniqueness would be guaranteed, and how the data associated with a UETR could be interrogated.

What Pay.UK intends on taking forward

> Pay.UK maintains that it will mandate the UETR to be carried within the payment data standard.

We have already commenced:

- Working with SWIFT on the Global Payment Initiative (GPI)* pilot for FPS.

Going forward we will:

- With industry, build upon the existing work on the GPI pilot, to develop the practical approach to adopting and using the UETR (including ascertaining issuance, uniqueness and interoperability within the NPA and with SWIFT for payments going to or coming from overseas).

* https://www.swift.com/our-solutions/swift-gpi

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Summary of Proposed Implementation of the Building Blocks

Building Block	Must be present at all times	Must be present in some circumstances	Comments
LEI	Yes	-	Only applicable for those directly accessing the NPA.
Structured Data, of which:			
Structured Address	-	Yes	Certain outcomes may require this.
Structured Remittance Data	-	Yes	Certain outcomes may require this.
Purpose Codes	-	Yes	Certain outcomes may require this.
Enhanced Characters	-	-	Pay.UK will not mandate the ability to carry this functionality but recommend its use. However, Pay.UK will mandate a specific character set if Enhanced Characters are used.
Enhanced Remittance	-	Yes	Certain outcomes may require this.
UETR	Yes	-	

Like-for-like Transition

As we previously noted, the design of ISO 20022 as an aid to transition to the NPA was consulted on as part of the Faster Payments Service (FPS) Transition Questionnaire. This concept became known as 'like-for-like' and would restrict the use of ISO 20022 messages to emulate as closely as possible the existing standard of FPS.

We received significant support to not introduce a 'like-for-like' approach. Respondents noted that adopting ISO 20022 as early as possible would ensure that the benefits it unlocks can be realised sooner.

Several respondents noted the concern around avoiding a "big bang" approach to transition and that the risks of moving from the current infrastructure to the NPA would need to be carefully managed. Pay.UK continues to engage with industry stakeholders more broadly on its transition approach to the NPA.

What Pay.UK intends on taking forward

> Pay.UK will not be implementing a 'like-for-like' approach to ISO 20022 messages.

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Market Guidance

The Consultation stated that both Pay.UK and the Bank intend to provide more detailed information about the use of our standards to enable specific transaction types, for example property purchases, tax payments and supplier payments. This will allow us to maximise the benefit of ISO 20022 enhanced data in the context of those transaction types.

The use of market guidance was broadly supported. Some respondents noted that the development of guidance with industry groups may be beneficial, akin to the CBPR+ approach but that having guidance ready for Day 1 of the NPA was premature and should be limited.

What Pay.UK intends on taking forward

> Pay.UK will continue to work with the Bank to develop appropriate market guidance for specific transaction types.

Data Translation

We stated in the Consultation that Pay.UK would consider whether there is market demand for guidance on translating data from existing UK retail payment standards to the NPA standard.

Some respondents noted that there might be demand but that any challenges with the transition could be serviced by certain providers in the market who would be incentivised to develop commercial data translation services for their clients.

What Pay.UK intends on taking forward

> Pay.UK will not offer translation data services. However, we will remain open to the possibility of publishing authoritative (canonical) data model mapping information to support reliable standard data translation services by the market.

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SECTION B: Foundational technical details for the ISO 20022 message standard including our technical design and ISO 20022 readiness approach.

This section of our Consultation stated that we were proposing six separate ISO 20022 message types. These six messages will represent the standard interface to the NPA core. We added that we would be working very closely with the Bank in ensuring a consistent usage of ISO 20022 where appropriate across the retail and high value infrastructures, for example, the Business Application Header (BAH).

NPA Standards Technical Design

<u>Views and rationale on the content of the messages.</u>

Respondents supported the use of the BAH, which is consistent with the adoption of ISO 20022 by other market infrastructures. It was noted by some, that the development of the messages should have an eye towards broader international interoperability as the NPA begins to unlock benefits over time.

Some respondents believed that the content of the messages is appropriate at this stage of the NPA's development but expected the message set to evolve as the programme moves forward; with this, a consideration of message maintenance and associated ongoing cost was needed.

A common theme across the responses was the need to align NPA message formats with RTGS so there are no interoperability issues.

However, the specific choice of messages received mixed feedback primarily because they were not accompanied by any scheme rules or payment flows that would put them into context. Many respondents noted that the messages were difficult to review in isolation. Others believed that more than six message types are needed to support retail payments effectively (including to cover reversal processes) and that they did not appear to align to settlement and end of day procedures.

As noted in our 'mid-term update', we plan to dovetail the development of the NPA standard with the work to define the NPA Propositions. This will enable us to develop the standard, focusing on business outcomes and requirements from a top-down perspective; the Proposition Exploration Group (PEG) will be key to how we do this. We noted a three-step process to this approach:

A. Identify the candidate ISO messages.

B. As appropriate, perform 'alignment' against specific standards used by other markets and FMIs – including the Bank – to validate interoperability and maximise harmonisation.

C. Formulate the technical collateral: Implementation Guides and (xml) Schemas.

To supplement this, we set out an initial plan for when each step would be released. These dates (per proposition) have been adjusted, but the aspiration to the end-date publication remains the same. Part of this adjustment was very usefully informed by the Community of Developers who were instrumental in suggesting that we combine the Retail Banking and Bulk Credit Payments propositions together as these would be implemented at the same time by developers.

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This is just one example where we view the role of the Community of Developers as an excellent steering opportunity for ISO 20022 implementers to help guide and inform Pay.UK throughout this industry transformation.

What Pay.UK intends on taking forward

We will continue to develop the six ISO 20022 messages and the associated schemas and implementation guides required for the NPA's Payment Propositions. As we develop our understanding of what is required in each proposition, we may define additional messages (and technical standards collateral) if required.

Pay.UK will also seek to ensure interoperability of the standard with other primary FMIs.

We have already commenced:

- Identifying the ISO 20022 messages we believe will be necessary for Retail Banking Payments and the Bulk Payment propositions and will continue to develop the overall NPA core message set in line with the Payment Propositions and related non-payment scenarios.

- Engaging on a monthly basis with our new Community of Developers forum to share our thinking and elicit feedback on the challenges associated with the practical implementation of the standard.

- Prioritising domestic and international alignment, to facilitate interoperability as follows:

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Reference Information	Documentation	pacs.008 ISO Version	Comments
CHAPS	https://www2.swift.com/mystandards/#/group/Bank_of_England	V08	Primary goal is to align with CCM and UK Payments systems.
Instant Payments Plus (IP+)	https://www2.swift.com/mystandards/#/group/Instant_Payments_Plus__IP__	V08	IP+ should be aligned with CBPR+ and HVPS+.
CBPR+	https://www2.swift.com/mystandards/#/search!usageguideline?q=CBPRPlus	V08	Should NPA need to use fields that are not included in IP+, we will follow CBPR+ guidance.
RTPG	https://www.iso20022.org/payments_rtpg.page	V06	RTPG uses an old version of the ISO messages. There may be issues with alignment which will be noted.
TCH	https://www.theclearinghouse.org/payment-systems/rtp/technical-documentation	V06	TCH uses an old version of the ISO messages. There may be issues with alignment which will be noted.
SEPA Inst	https://www.europeaPay.UKymentscouncil.eu/sites/default/files/kb/file/2018-11/EPC122-16%20SCT%20Inst%20Interbank%20IG%202019%20V1.0_1.pdf	V02	SEPA uses an old version of the ISO messages. There may be issues with alignment which will be noted.
TIPS	https://www.ecb.europa.eu/paym/target/tips/profuse/html/index.en.html	V02	TIPS uses an old version of the ISO messages. There may be issues with alignment which will be noted.

Going forward we will:

- Use our Pay.UK industry-facing fora to inform the progress towards alignment or will call out differences in our technical collateral (for the new standard).

- Implement the ISO 20022 Business Application Header (Version 2 of the BAH) with every message. The Bank also intends to use Version 2.

- Aim to publish our technical standards collateral to industry around these targeted dates:

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	Retail Banking Payments	Bulk Credit Payment Management	Direct Request	Mandate Management	Participant-to-Participant
ISO message identification	Nov, 2020	Nov, 2020	Dec, 2020	Dec, 2020	Jan, 2021
Alignment	Feb, 2021	Feb, 2021	Jul, 2021	Sep, 2021	Jan, 2022
Publish Implementation Guides & Schemas	**Jun, 2021**	**Jun, 2021**	**Feb, 2022**	**Feb, 2022**	**Jun, 2022**

Standards Source Portal

Views on the usage of the Standards Source Portal to present our technical documentation and possible improvements.

The Consultation noted that the technical documentation, including message schemas and supporting material, is available on the Pay.UK Standards Source Portal.

The feedback received from respondents was very positive overall, with many finding the Portal useful and easy to use. Pay.UK also received suggestions on how to improve the Portal, including whether:

- Pay.UK would review if technical specifications could also be published elsewhere (e.g. on SWIFT MyStandards) for availability across the industry and to enable comparison with other industry standards.

- Standards Source could widen its target audience to also include "business" users as well as technical developers.

- Pay.UK should initiate a broader communication plan for Standards Source (including, for instance, webinars).

- The use of a GitHub type approach (to allow commenting and idea sharing, focusing on the data models and schemas) could be one area of investigation.

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What Pay.UK intends on taking forward

> ***We have already commenced:***
>
> - A review of additional documentation that, in the meantime, might usefully be added to Standards Source over and above the current technical documentation.
>
> ***Going forward we will:***
>
> - Given the strong support for the use of Standards Source (as both repository and static validation environment), in conjunction with the industry need to have a centralised point of reference, review our strategic direction with respect to Standards Source and publish this in 2021.

Readiness and Validation Approach

Pay.UK has provided a validation capability via Schematron Schemas for the NPA standard which can be found on the Standards Source Portal. We also noted in our Consultation that we were considering making other, additional artefacts available too. These included:

- **'ISO 20022 Facets':** providing test data examples and samples for ISO 20022 data types, data templates, data structures and data restrictions useful for testing teams.

- **Robust Test Files (XML format)**: detailed, commented sample files for each XSD schema populated with valid test data. Their purpose is to validate that clearing and settlement is successful for a message containing every mandatory and optional field in the schema populated to their maximum length.

- **Skinny Test Files (XML format)**: detailed commented sample files for each XSD schema populated with valid test data. Their purpose is to validate that clearing and settlement is successful for a message containing only the mandatory fields populated with the minimum data length.

- **Schematron Rules Test Pack:** containing all the business rules (ISO 20022 and NPA bespoke) implemented in Schematron.

<u>Views on this approach that it will add value and enable the NPA standard to be more easily used.</u>

There was overwhelming support by respondents for the approach proposed in the Consultation, with some indicating that they wished to work with Pay.UK to further develop the readiness and testing approach.

<u>Views on refining this approach.</u>

A common theme across many of the responses was the need for an automated test environment, e.g. a simulator or sandbox to test different scenarios and use cases. Another frequent request was to align with the Bank's tools for standards and testing, and to use MyStandards for testing and readiness purposes.

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What Pay.UK intends on taking forward

We have already commenced:

- Procurement for our message validation Simulator.

- Developing the rationale as to why a message simulation tool will benefit the programme and the applications where it will be used throughout the delivery.

- Validation of the new message standard.

- Developing the Test Rig for validation of NPA adherence, including consistency in validation, service interface, and industry testing.

- Independent assurance of the NPA solution.

- Non-Functional testing assurance.

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SECTION C: Future direction on concepts that require a degree of standardisation across the Payments ecosystem.

Liquidity Interface Standard

This part of the Consultation set out the future direction on concepts that may need some element of standardisation and sought feedback on Pay.UK's role in setting standards in these areas.

<u>Views on the provision of a common liquidity interface standard for RTGS and NPA.</u>

In our Consultation, we stated that liquidity management was vital to the operation of the Payments infrastructure and that basic liquidity management functionality will be provided by the Bank. To help build on this, more advanced functionality could be facilitated by a read/write API, enabling participants to connect their own liquidity management solutions. A common standard could then help to ensure that third-party liquidity management solutions would be interoperable and support common functionality through an interface.

Whilst a number of respondents requested more detailed information in order to fully understand the proposal, the vast majority favoured the provision of a common liquidity interface standard for RTGS and the NPA. The general opinion is that this would improve visibility across the two infrastructures and allow a sooner implementation of risk controls. It would also support the development of third-party liquidity management solutions and aid liquidity management more generally.

Others noted the importance of setting standards that are well defined and agreed with the industry to ensure that they deliver optimal outcomes. This cooperation could extend internationally to eventually producing a global standard. Several respondents noted that this approach would only be advantageous if the information provided and the associated decisions made were real time, but that ISO 20022 could enable this with API technology. However, one respondent noted that the impact of any new standards would need to be assessed before formalising.

A recurring theme in the feedback was the importance of close collaboration with the Bank to ensure alignment where appropriate.

<u>Agreement that the Standards Authority should set standards collaboratively with participants and end-users in this area.</u>

The majority of respondents, from a wide cross-section, supported this approach and were keen to engage further.

Regarding the provision of a common liquidity interface for RTGS and NPA - Do you agree that the Standards Authority should set standards collaboratively with participants and end-users in this area?

No 5%

Yes 95%
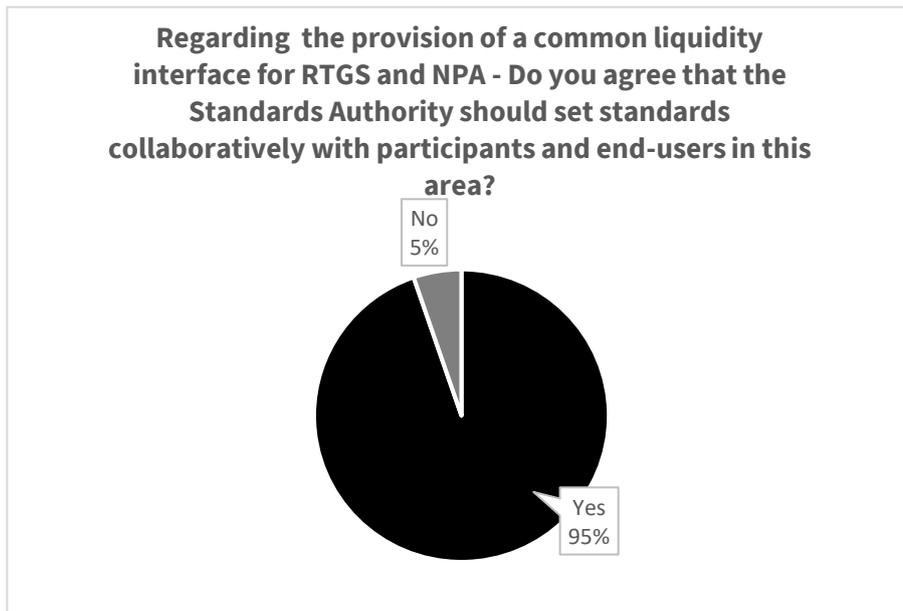
What Pay.UK intends on taking forward

Pay.UK will work with the Bank to develop a liquidity interface standard in conjunction with industry.

We have already commenced:

- Developing through ISO, in joint leadership with China and Singapore, the ISO Web based API specification (ISO/TS 23029:2020 Web-service-based application programming interface (WAPI) in financial services).

- The introduction of the capability to register API artefacts under the ISO 20022 standard, in partnership with SWIFT.

- Engaging with corporate treasurers through bilateral meetings to understand the liquidity challenges that could be unlocked with the liquidity interface.

Going forward we will:

- Continue to use SAP and the ISCC to help us facilitate engagement with industry.

- Continue to engage with corporate treasurers and other key industry stakeholders to help Pay.UK and the Bank drive the development of the liquidity interface standard.

- Develop a plan with key industry stakeholders on how we prioritise aspects of development for the liquidity interface.

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Payment Metadata Standards

In our Consultation, we solicited feedback on the concept of the NPA facilitating metadata: additional data that could be supplied as part of the payment initiation to help improve efficiency, via Straight Through Processing (STP); for example, fraud-related metadata such as whether a payment has been subject to a Confirmation of Payee (CoP)[10] verification.

Views on the concept of payment metadata standards.

There was very strong support for Pay.UK setting standards in this area with the vast majority of respondents citing the potential benefits for anti-money laundering and fraud prevention. Several respondents were of the view that the more information accompanying the payment, the better for reconciliation and screening purposes.

However, as noted above on the Building Blocks, some respondents highlighted that an increased use of metadata must not come at the expense of customer data privacy. There would also be new obligations on ecosystem participants (including small businesses) to supply and store this additional data, which could be burdensome (especially if some aspects became mandatory) and may require associated technology changes; its management would need to be carefully planned and controlled. Linked to this, one respondent stated that it did not support the enhanced remittance data being stored as external remittance documents given concerns around security and that the European Payments Council had rejected a similar request for the ISO 20022 rulebooks on this basis.

Some respondents also noted the need to be prescriptive about what fields should be completed and how to ensure consistency in their application so that optimal efficiencies could be gained.

Pay.UK was encouraged to cooperate with international standards-setting bodies to design the new metadata standards. This would ensure interoperability and enable cross-border data-sharing and reporting for international participants.

Agreement that the Standards Authority should set standards collaboratively with participants and end-users in this area.

A near-unanimous level of support for this approach was received from a wide range of respondents, with an enthusiasm to engage further.

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[10] https://www.wearepay.uk/confirmation-of-payee/

Regarding the concept of payment metadata standards - Do you agree that the Standards Authority should set standards collaboratively with participants and end-users in this area?

No
0%

Yes
100%
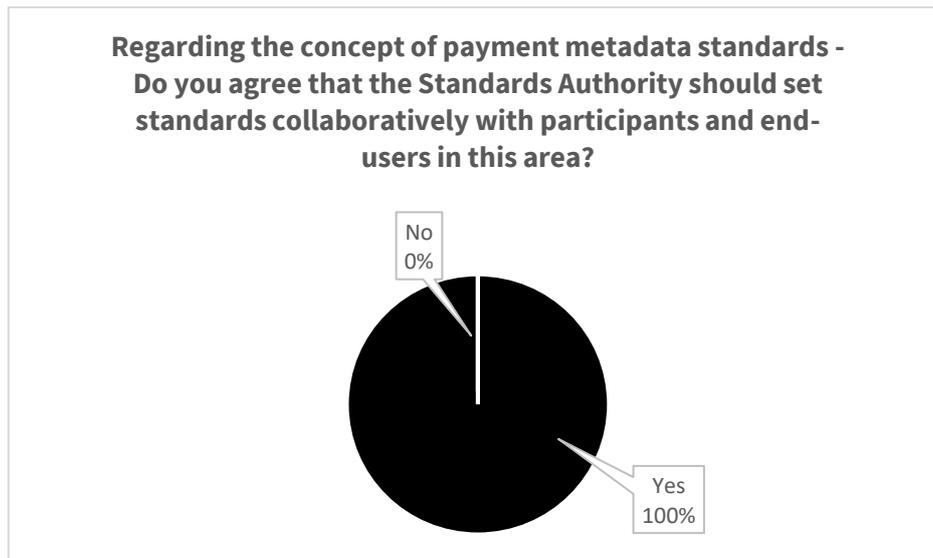
What Pay.UK intends on taking forward

We maintain that we will continue to galvanise and drive the use of metadata in the NPA standard and explore additional end-user benefits that it can unlock.

We have already commenced:

- Engaging with HMRC and accountancy software providers to assess their requirements for the use of enhanced remittance data.

- Engaging with the Confederation of British Industry (CBI) to explore opportunities for its members in using metadata and the benefits the standards can unlock.

Going forward we will:

- Continue to explore, more widely with stakeholders, the key outcomes and benefits that could be unlocked for businesses and end users through the use of standards.

Standards to Enable Market Differentiation

In this section of our Consultation, we discussed how the standard could extend the use of data enhancements to serve specific, well-defined participant and end-user outcomes. Specifically, that a standard could act as a basis to introduce competitive services enabled by the NPA that would be open to any participants that chose to adopt them. For example, this could include a service for the exchange of complex remittance data, alongside the payment, to enable business-to-business payments and supply chain management.

Views on the use of optional standards as a means of offering differentiated payment services.

The majority of respondents supported the use of optional standards as a means of offering differentiated payment services.

However, there were some caveats. Although this was seen as supporting innovation, some respondents were concerned that the development of common standards for certain use cases could lead to the proliferation of different standards, offering little additional value.

Strong governance around the new optional services was seen as crucial, otherwise data could be truncated or services could be inconsistent. As such, some respondents noted that Pay.UK would need to consider how much resource it could dedicate to supporting this governance activity. Furthermore, several respondents noted that alignment between existing mandatory standards for the NPA and more broadly at an international level was imperative.

Intermediary payment providers would also need to be able to process this information without any upgrades or changes to payment processes.

<u>Agreement that the Standards Authority should set standards collaboratively with participants and end-users in this area.</u>

The majority of respondents, from a wide cross-section, supported this approach and were keen to engage further.

However, one respondent noted that it was not Pay.UK's role to provide optional standards and that this rested with the market. Another respondent suggested that Pay.UK devise a "principles framework" that helped it identify when it would be appropriate for them to develop standards for differentiated payment services.

Regarding the use of optional standards as a means of offering differentiated payment services - Do you agree that the Standards Authority should set standards collaboratively with participants and end-users in this area?

No 3%

Yes 97%
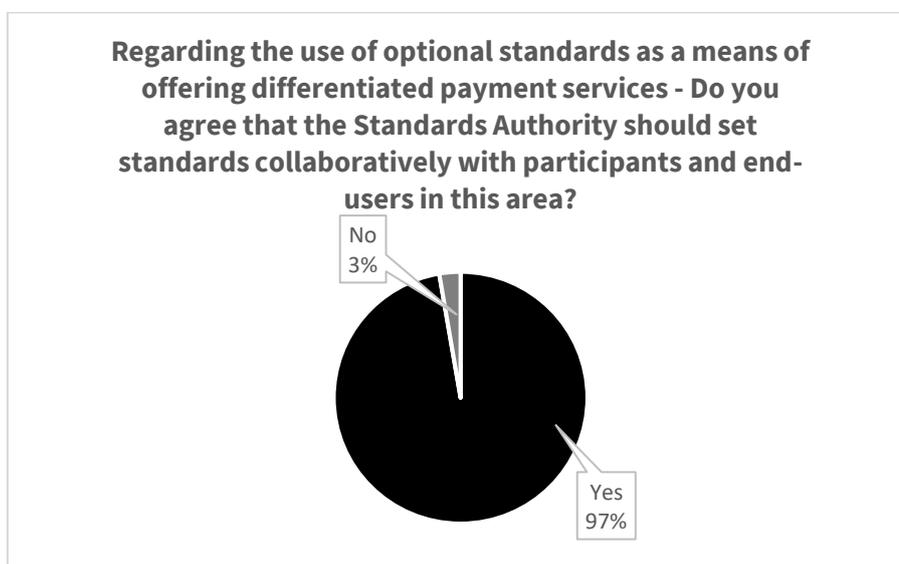
What Pay.UK intends on taking forward

We note that the capability to have optional standards is important for respondents. As such, once we have started to establish our NPA Payment Propositions, we will begin to explore how optional standards may work here to provide an improved data exchange ability. We will look to articulate our approach further in 2021.

Payment Authorisation Standard

In the Consultation, we noted that we expected the NPA standard to have to support payments that will require more than one authorising signatory at payment initiation and that this functionality, typically, would be implemented between the account-servicing participant and the account owner.

The need to set market practice standards for capturing multiple signatories/authorisations as part of a payment instruction based on ISO 20022.

The idea of developing a common standard for capturing multiple signatories/authorisations as part of a payment instruction received a mixed response, with no overarching, single view either way.

It was acknowledged that a payment authorisation standard would support better end-to-end processes by replacing what is currently a paper-based procedure for many institutions. For some third-party providers, a common standard would also help save time and effort by reducing discrepancies between banks' different specifications and practices.

However, many respondents suggested that this is not a suitable area for standardisation in ISO 20022 because managing account access is the responsibility of financial institutions and existing arrangements are varied and complex. Setting standards in this area may also inhibit innovation as this is an area where service providers are developing new solutions. Instead, several respondents noted that Open Banking would be a more appropriate place for a solution to be found.

General agreement that the Standards Authority should help facilitate standards collaboratively with participants and end-users in this area.

Do you agree that the Standards Authority should set standards collaboratively with participants and end-users in this area?

No 14%

Yes 86%
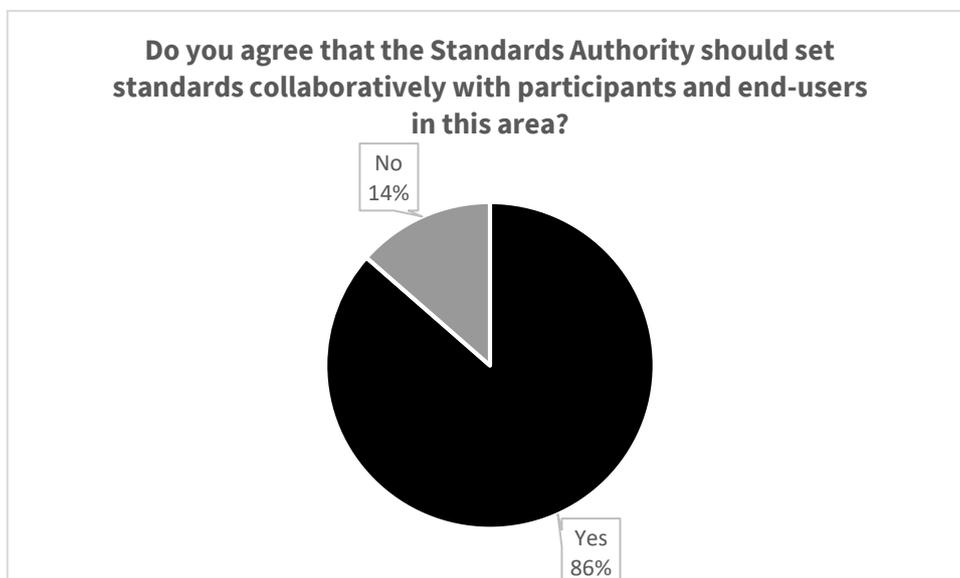
Most responses to the Consultation noted that the Standards Authority should play some type of role here, but many noted that it was not for Pay.UK to set standards, only to act as a facilitator and that industry should be responsible for taking the lead.

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What Pay.UK intends on taking forward

> Following a no clear majority view from industry, Pay.UK will not be prioritising the development of a Payment Authorisation standard at this time.

Going forward we will:

- Ensure we remain engaged with industry on this topic and, if needed, will act as a facilitator and driver if clear benefits and use cases emerge.

Exceptions and Investigations

We noted in our Consultation that there is currently an opportunity to improve how participants exchange structured data across the NPA to help resolve scenarios where the payment clearing and settlement process results in an unintended outcome. Given the significant challenges with manual intervention, a standard could be used to help streamline these processes.

Views on setting standards and rules for Exceptions and Investigations through the NPA.

There was very strong support for the development of common standards and rules for managing Exceptions and Investigations. Almost all respondents agreed that the current approach is fragmented and resource intensive, and that standards would help save time and resource by reducing manual intervention and simplifying issue resolution.

The one respondent who did not agree with this approach stated that authorisation of a payment instruction should happen before a message has reached a scheme and that this was dependent upon individual business models and risk appetite.

Agreement that the Standards Authority should set standards collaboratively with participants and end-users in this area.

A near-unanimous proportion of respondents, from a diverse range of backgrounds, supported this approach and were keen to engage further.

Do you agree that the Standards Authority should set standards collaboratively with participants and end-users in this area?

No
0%

Yes
100%
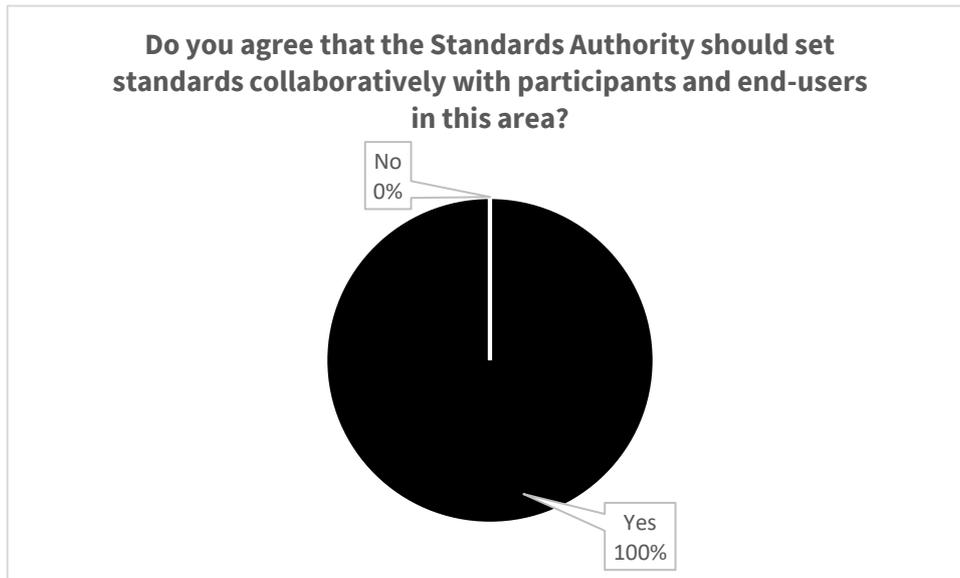
What Pay.UK intends on taking forward

Following a significant majority of support from respondents, Pay.UK will engage, facilitate and help realise the case for standards to address challenges around Exceptions and Investigations.

Going forward we will:

- Explore how we may be able to develop an approach to Exceptions and Investigations for retail payments.

- Engage PSPs and other industry stakeholders on the specific challenges associated with Exceptions and Investigations and develop a plan for how the standards could be used to resolve these issues.

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Concluding remarks

We would like to take this opportunity again to thank those that have taken the time to respond to this Consultation.

We intend to keep industry apprised periodically of our progress through our external engagement fora and a 'Standards Update' publication that will be available through our website.

Should you have further comments or questions in the meantime, do please contact us directly at standards@wearepay.uk.

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Glossary of Terms

API	Application Programming Interface
BAH	Business Application Header
BASDA	Business Application Software Developers Association
CBI	Confederation of British Industry
CCM	Common Credit Message
CHAPS	Clearing House Automated Payment System
CPBR+	Cross-Border Payments and Reporting Plus
CPMI	Committee on Payments and Market Infrastructures
ESG	Environmental, Social and Corporate Governance
EUAC	End-User Advisory Council
FSB	Financial Stability Board
GLEIF	Global Legal Entity Identifier Foundation
GPI	The SWIFT Global Payment Initiative
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
ISCC	Industry Standards Coordination Committee
LEI	Legal Entity Identifier
NPA	New Payments Architecture
PSP	Payment Service Provider
RTGS	Real Time Gross Settlement
RTPG	Real Time Payments Group
SAP	Standards Advisory Panel
SEPA	Single Euro Payments Area
TCH	The Clearing House
The Bank	The Bank of England as operator of CHAPS (and RTGS)
UETR	Unique End-to-End Transaction Reference
XML	Extensible Markup Language

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