CPMI secretariat
cpmi@bis.org

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GSS's response to the Committee on Payments and Market Infrastructure (CPMI) consultative report ISO 20022 harmonisation for enhancing cross-border payments

Global Screening Services (GSS) is pleased to provide comments to the CPMI with regards to the public consultation on ISO 20022 harmonisation requirements for enhancing cross-border payments. To this consultation, GSS agrees with the CPMI and the Payments Market Practice Group's (PMPG) joint task force (JTF) that the adoption of common standards for financial transactions, including cross-border payments, incorporating richer and better structured data will deliver a safer and more efficient payments market.

GSS's position in the market provides a unique perspective on the impact of ISO20022 on transaction screening, especially in the field of sanctions, and the benefits that the standard can deliver both in terms of improving screening effectiveness and efficiency. It is GSS's firm belief that inconsistent standards relating to sanctions screening, especially low-quality ones, introduce friction into the cross-border payment network. GSS has worked hard to improve transaction screening not only by working smarter and employing new technology but by working with the industry to deliver consistent standards in relation to sanctions and Request for Information (RFI) screening processes.

GSS is of the firm belief that higher quality standards, such as those being pursued by the CPMI through ISO20022 and those GSS have advanced in sanctions and RFI, will perform critical roles in delivering the Financial Stability Board's (FSB) G20 cross-border payments programme to deliver a faster, more inclusive and cheaper cross-border payments ecosystem. GSS equally recognises the challenges that both our clients and partners will face in realising these ambitions and hope to balance our response to this consultation between the benefits of proposed requirements and the associated complexity and effort to implement.

Our inception and role in responding

GSS was founded in 2021, as an industry-led initiative to re-imagine transaction screening, and since its inception has worked with global experts who share the common vision that there are substantial benefits to be gained from agreeing common sanctions screening standards, sharing information, delivering solutions via a common trusted platform, and adopting best-in-class technology.

Developed in collaboration with more than twenty global banks, in partnership with SWIFT and cognisant of the nature and scope of applicable regulation, financial services and data protection, the GSS solution is due to go live in 2023.

The GSS platform is a cloud-based ecosystem that integrates securely with financial institutions (FIs) to screen their cross border and domestic transactions. GSS will screen transactions against

selected public and private sanctions lists, using common and enhanced standards that have been developed with the industry.

The application of common and enhanced standards, new technology and the ability to share information in line with data privacy regulations will improve sanctions screening and remove friction from the end-to-end transaction lifecycle. With the introduction of ISO20022 message data standards, the opportunity for enhancing the screening processes even further through more targeted screening is possible.

In addition, creating Request For Information (RFI) standards and corridors for involved banks to exchange information via provided rails under agreed conditions will also enhance the process. The result is a more effective and efficient sanctions screening process that allows users to leverage cloud-native technologies and automation for one of their most essential compliance processes. A set of such RFI standards that were developed by Swift and supported by GSS are included in Appendix 1 of this response. These standards have already been adopted and put into practice by global FIs.

GSS's vision is aligned to that of the CPMI, PMPG and JTF to set a new harmonised standard for payments messaging through ISO20022 and our belief is that it will ultimately translate positively into helping achieve several FSB targets on cross-border payments. If market participants can agree a common language, pursue more consistent and better structured data in financial transactions, it will enable us to enhance screening processes, facilitating faster, cheaper, more accessible and more transparent cross-border payments in line with the G20 targets.

In this response GSS has focussed comments on the questions that will have the greatest impact on sanctions screening effectiveness and efficiency when combined with GSS standards.

Question 10: Character sets

Question 10: Do you agree with the restricted character set for cross-border payments as described above? If not, which alternative character sets or additional characters should be included?

GSS agrees that a common character set for cross-border payments enables a consistent understanding and interpretation of shared information, therefore, improving the efficiency of payments processing and avoiding significant delay or return of payments.

However, restricting the cross-border character set to the Latin character set, as is commonplace today, will likely persist existing sanctions screening challenges that relate to transliteration between Latin and non-Latin character sets.

By restricting available characters in the end-to-end transaction, it limits the ability of FIs [using alternative writing systems or special characters] to accurately represent local language characters in the end-to-end transaction flow and leaves the same information to be interpreted ambiguously by other FIs involved in processing the message.

As regulators can designate entities needing to be screened using local non-Latin characters, an FI's screening process needs to interpret the contents of cross-border messages and transliterate the Latin form of local language characters back to the original local language (or vice versa) to ensure effective screening. If characters that have been transliterated are not clearly identified, or if

the protocol used to transliterate the characters is not standardised then those same characters can be interpreted ambiguously which introduces significant inefficiencies in the process, thereby increasing friction.

To illustrate, Chinese Commercial Code (CCC), which is used to transliterate native Chinese to Latin using strings of the numerals 0-9, means that the transliterated version of native Chinese using CCC can be misinterpreted in its Latin format as a telephone number, account number or other forms of identification resulting in misinterpretation and false positives in the screening process. There has already been significant coverage of the challenges that the use of commercial code presents by HKMA[1], Swift[2] and OFAC[3]. Furthermore, the potential use of multiple transliteration methods, such as Pinyin, introduces further divergence and amplifies the inefficiencies in the screening process.

It is difficult to employ an effective and efficient screening process when there is a lack of uniformity and fragmentation in the application of transliteration across institutions, operators and jurisdictions. In order to address this, there needs to be harmonisation in order for screening processes to remove the friction this creates.

CPMI's recommendation for jurisdictions to add local language mapping where necessary to facilitate the efficient processing of inward and outward cross-border payments partially addresses this issue.[4] However, the effectiveness of this recommendation will be limited if mappings are not globally standardised and consistently applied. Supplemental requirements or initiatives to bridge the gap need to be considered.

For example, initiatives that could help include:

1. Common globally recognised conversion protocols for transliteration of character sets. For example, Swift provide a conversion table for converting CCC back into Chinese symbols. This could be adopted by all local schemes.
2. Designation of names (by regulators) in both Latin character set (aligned to ISO20022) and local character set dependent on message origin.
3. Transliterated data being clearly identified in payments messages along with the protocol used to transliterate it.

Questions 25 and 27: Structured party information

GSS is responding to Question 25 and Question 27 together as it believes the same principles and answer applies to both.

Question 25: Do you agree that requiring participants to identify all entities involved in a cross-border payment in a standardised and structured way would enhance the processing efficiency of cross-border payments? Please explain.

[1] Hong Kong Monetary Authority (HKMA). Guidance paper on Transaction Monitoring, Transaction Screening and Suspicious Transaction Reporting, Revised May 2018. 20180510e3a1.pdf (hkma.gov.hk)
[2] Swift. CCC table and guidelines. https://www.swift.com/standards/standards-resources?category=7051
[3] OFAC. SDN List. https://ofac.treasury.gov/recent-actions/20180427
[4] Committee on Payments and Market Infrastructure (CPMI). Consultative report ISO 20022 harmonisation requirements for enhancing cross-border payments, March 2023, page 11. https://www.bis.org/cpmi/publ/d215.pdf

Question 27: Do you agree that requiring participants to identify all persons involved in a cross-border payment in a standardised and structured way would enhance the processing efficiency of cross-border payments? Please explain.

GSS agrees that identifying all entities and persons in a standardised and structured way would enhance the processing of cross border transactions.

In today's format, it is common for information relating to a party to be captured in a semi-structured manner. This leads to compliance inefficiencies due to misinterpretation of data, or additional effort required to interpret data. For example, if a party's name and address are contained in the same message field, as they are today, this will lead to false positives when screening transactions for a sanctioned entity. An example of such misinterpretation is designated entity "Royal Africa Holdings", a company name, which in some screening systems may generate a match against legitimate entities with addresses in Africa.

Furthermore, not classifying the party type in the message can lead to inefficiencies due to false positives caused by matching incorrect entity types. For example, the vessel "Mary Rose" could match individuals by the same or similar names which would generate false positives in some sanctions screening systems.

By structuring the data, classifying party types, and ensuring the structured fields are populated correctly, this would greatly improve sanctions screening and therefore reduce friction in the end-to-end cross border transaction.

With regards to the core data elements for identifying persons and entities (Annex 2, Table 2.1, ISO 20022 'Party'), GSS agrees with the fields 'Required' and 'Recommended' by CPMI as a minimum. GSS would also propose the follow additions:

- Include a new field in the 'Party' model to unambiguously identify the party type, and make this 'Required'.
- Make 'Date And Place Of Birth' a 'Recommended' data field.
- Make 'Private Identification/Other/Identification' a 'Recommended' data field (similar to BIC and LEI for entities).

For completeness, comments on the address fields are presented in GSS's response to questions 28 and 29 later in this document.

Question 26: Structured Identifiers

Question 26: Do you agree with the proposed use of structured identifiers such as the LEI, if they exist, to complement the recommended minimum data requirements to identify the legal entities involved in cross-border payments? Are there alternative approaches that you would suggest?

GSS agrees with the use of structured identifiers to complement the recommended minimum data requirements. There are many benefits structured identifiers can bring to sanctions screening, if implemented appropriately. The scope of GSS's response therefore applies to all identifiers that are relevant to sanctions screening and not just those specific to companies. Additional identifiers and entity types include passport numbers for individuals, IMO numbers for vessels, aircraft identification codes or ISINs and CUSIPs for securities.

The benefit of structured identifiers in the context of sanctions screening stems from the unambiguous identification of transaction parties, which supports the effective and efficient screening of transactions in two ways:

1. Regulators can include structured identifiers when designating entities, therefore encouraging the use of structured identifiers in the transaction message providing for more effective sanctions.
2. False positives generated by the fuzzy matching on a party's name alone can be accurately discounted using structured identifiers. For example, if a legitimate entity continues to have its transactions held due to having a name similar to a sanctioned entity, the structured identifier of the legitimate entity can be used to distinguish it from the sanctioned one, thereby reducing friction for the legitimate entity.

However, while GSS believes in the long-term use of structured identifiers, GSS does not believe that structured identifiers should be required or mandated at this stage. This is due to the relative availability of different identifiers and to obtain the maximum value they need to be phased in over time. In the short term structured identifiers must be encouraged and in the medium to long term, as alignment and adoption increases, become mandated.

For structured identifiers to be fully effective GSS also recommends they are classified within the transaction. Structured identifiers are usually formed of a string of alphanumeric characters, and while the structure of the identifier can sometimes be used to identify the type of identifier, it is not possible to do this deterministically or with complete confidence. Without this classification the benefits described above will be diluted due to not knowing the nature of the identifier.

Specifically in the case of Legal Entity Identifiers (LEIs), GSS recognises the value of the adoption of LEIs. The LEI connects institutions to key reference data such as its official name as recorded in the official registers, legal and headquarters address, the establishment date of the entity, the registered address of that legal entity, the country of formation and the direct and ultimate accounting consolidation parents of an entity.[4] Ultimately it provides validation of data and richer information back to institutions regarding the legal entity within a payment. Any adoption of LEIs needs to be coordinated with existing internal KYC processes.

Sanctions screening currently heavily relies on matching legal entity names to sanctions lists. LEI has multiple use cases for sanctions screening to be considered, which is also covered in PMPG's white paper on the Global Adoption of the LEI[5]:

- Payment Initiation – LEI present for Debtor (sourced from client record) and Creditor (captured at point of initiation).
- Sanctions Screening – screen outbound payment based on name and LEI if present.
- Alert Disposition – Opportunity to add c.2m issued LEIs to "good-guys" for non-sanctioned entities to prevent false positives.
- Alert Investigation – LEI lookup via API and search database to validate BIC, name or address provided.
- Creditor RFI – leveraged in the same way as in investigation. Requests for information can be supported with information held at again Legal Entities quoted in a payment.

[4] GLEIF. https://www.gleif.org/en

[5] Payments Market Practice Group (PMPG). White paper on Global adoption of the LEI (Legal Entity Identifier) in ISO 20022 Payment Messages, 2021. https://www.swift.com/sites/default/files/files/swift_global_adoption_of_the_lei_finaldraftv1.0.pdf

To support the adoption of LEI, GSS agrees with the approach of designating LEI as 'Recommended' in the ISO20022 Party data model.

Questions 28 & 29: Structured address information

GSS is responding to questions 28 and 29 together as the same principles and answer applies to both.

Question 28: Do you agree that a requirement not to use unstructured postal address information and to use only structured postal address information can help enhance the processing efficiency of cross-border payments? Please explain.

Question 29: Do you agree with the minimum required postal address information consisting of the Country and Town Name fields? Should any additional fields be required?

GSS agrees with the requirement not to use unstructured postal address information to enhance the processing efficiency of cross-border payments, and consequently the CPMI's proposal for the "Address Line" field not to be included ("N") as part of the core data elements for person/entity identification as referenced in table A2.1 CPMI data model for person/entity (ISO 20022 'Party').[6]

Where the address in an MT message is mapped into an unstructured or free-text field such as the "Address Line", screening processes look to detect geographical information from the data in the field to screen the transaction against watchlists. The challenge with unstructured addresses is it can be difficult to distinguish the geographical information and whether data is intended to represent a city or street name is unclear and therefore generates false positives.

An example of geographical information in the "Address Line" field triggering an alert is as follows:

<Name> ABC Corporation	**<Name> ABC Corporation**
<Postal Address> <Address Line> Rue de Téhéran	<Postal Address> <Address Line> Tehran

Given the free-text field does not specify the purpose of the data and in the absence of town, post code and country information, fuzzy logic would rightly produce an alert for both examples residing in Iran. While this does not impact the effectiveness of the screening engine it does create a false positive alert for the entity residing in a non-sanctioned country. This introduces unnecessary friction to the screening process.

Furthermore, GSS agrees with the CPMI's proposal to use only structured postal address information as part of the core data elements for person/entity identification as referenced in table A2.1 CPMI data model for person/entity (ISO 20022 'Party'). In addition, mandating data entry through the designation of required "R" and recommended "RC" fields is a positive step forward.

If we take our previous example of geographical information in the "Address Line", which triggered an alert and apply it to the proposed data format, with the mandated fields completed, it would read as follows:

[6] Committee on Payments and Market Infrastructure (CPMI). Consultative report ISO 20022 harmonisation requirements for enhancing cross-border payments, March 2023, page 32. https://www.bis.org/cpmi/publ/d215.pdf

<Name> ABC Corporation	<Name> ABC Corporation
<Postal Address> <Street Name> Rue de Téhéran <Building Number> <Post Code> <Town Name> Paris <Country> France	<Postal Address> <Street Name> <Building Number> <Post Code> <Town Name> Tehran <Country> Iran

With the mandated data included aligned to the correct field the screening process would only produce an alert for the example residing in Iran. This immediately provides an efficiency gain for the payments process in terms of sanctions screening.

From a sanctions screening perspective GSS also recommends 'District Name' and 'Country Sub Division' be included as recommended ('RC') in addition to those already proposed in the CPMI data model including 'Street Name', 'Building Number' and 'Post Code'. 'Country' and 'Town Name' should be required ('R') as designated in proposals. This is particularly important following the increase in Russian sanctions where country-level information alone, no longer gives you the precision required (e.g. Crimea, Donbas, Luhansk). It also allows FIs to identify regions with in countries which border comprehensively sanctioned countries.

GSS believes that the primary challenge for using structured data and the key for unlocking the benefits of these data elements will be the consistent use of the fields. As the structure and format of addresses varies globally, regional guidance may be required to ensure fields are used consistently. This should also be supported by standardised location codes where possible, for example ISO 3166-2 for representations for names of countries and their sub-divisions.

Concluding remarks

GSS is of the firm belief that higher quality standards, such as those being pursued by the CPMI through ISO20022 and those GSS have advanced in sanctions and RFI, will perform critical roles in delivering the Financial Stability Board's (FSB) G20 cross-border payments programme to deliver a faster, more inclusive and cheaper cross-border payments ecosystem.

While the consultative report acknowledges fragmentation of messaging standards is a major cause of friction in cross-border payments it does not fully equate the impact real time sanctions screening will have in crystallising the benefits associated with frictionless cross border payments.

FIs and Payment Service Providers (PSP) in the payment chain are legally obliged not to process payments from or to sanctioned parties and require surety that alerts are either false positives or true matches. Efficiency and effectiveness of processing is tightly correlated with the quality of the data transmitted in payments messages and further enhancement to the ISO20022 standard would provide further opportunity to provide surety more efficiently.

We appreciate the opportunity to submit these comments for consideration. Please do not hesitate to contact us for any further information regarding the content of this submission.

Please note that whilst GSS has been developed in close collaboration with industry experts, the contents of this paper are entirely the responsibility of GSS.

Global Screening Services
6 New Street Square
London, EC4A 3BF, United Kingdom
www.gss-rose.com

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GSS brings global financial institutions together to deliver higher standards in compliance, providing a trusted platform to enhance and exchange information. The first service delivers sanctions transaction screening, built on industry standards and improved processes. Services under GSS are easily accessible to everyone, delivering greater effectiveness, improved efficiency, and a reduction in friction.

Global Screening Services (GSS)
6 New Street Square
London EC4A 3BF United Kingdom

E info@gss-rose.com
W www.gss-rose.com

Registered Name: GSS UK Services Limited | Registration Number: 13628224 | Place of Registration: England & Wales