



Help for what matters

Mitigating risk of data truncation in CHAPS messages for a limited time period

White label communications

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Introduction

The global transition to the ISO 2022 messaging standard in payments will entail a short period of time during which GBP-denominated customer payment messages containing enhanced data may be subject to data truncation when transmitted via CHAPS. This period is expected to be limited to approximately three months between November 2022 and February 2023. This briefing defines the risk, the industry's approach to truncation, and what stakeholders should action to mitigate risk in a transparent and consistent way.

When CHAPS payment messages move to the SWIFT MX (ISO 2022) network in June 2022, CHAPS participants and their originating customer or correspondent bank should **continue only to send the same amount of information as they do now in GBP-denominated payment instructions** (i.e. compared with the existing SWIFT MT messages over the FIN network). You should not seek to include any enhanced data at this point, either in June or in November 2022 when SWIFT enables enhanced ISO messaging for cross-border payments (CBPR+). This is to ensure that any cross-border / correspondent banking messages can be correctly received by the creditor after processing through CHAPS, without delay or truncation of information. See Enhanced Data section below for further details of how 'enhanced data' is defined.

Any enhanced data included in GBP-denominated instructions before February 2023 (such as Legal Entity Identifiers) may be subject to truncation when processed via CHAPS; this may delay the payment, for instance by impacting straight through processing of the payment.

Once the CHAPS service has transitioned to full support for enhanced ISO 2022 messaging in February 2023, you will be able to send any information permitted by the new larger messages, in a more structured flexible message format. The Bank is actively encouraging CHAPS Direct Participants (DPs) and the wider payments industry to take advantage of the new possibilities that enhanced ISO 2022 messages offers from February 2023.

Detail

Who should read this document?

This document is for any **organisation that sends instructions, messages or requests for GBP-denominated payments to be processed via CHAPS**; or if you support such an organisation through provision of software or technology services. It may also serve as the basis for your own firm's communications materials, on the assumption that such material does not negate the core narrative of this briefing.

For example, you might be a payment service provider (PSP) which accesses CHAPS indirectly via a correspondent banking relationship, or a corporate customer instructing their bank/PSP to make a CHAPS payment. You might also be a technology vendor to one of these firms.

It is particularly relevant if you send such instructions via SWIFT and/or use ISO 2022 compatible software to create instructions (either now, or at any point prior to February 2023). An example of such software would be a treasury management system which can create pain.001 payment instructions for your bank/PSP to process.

Truncation risk

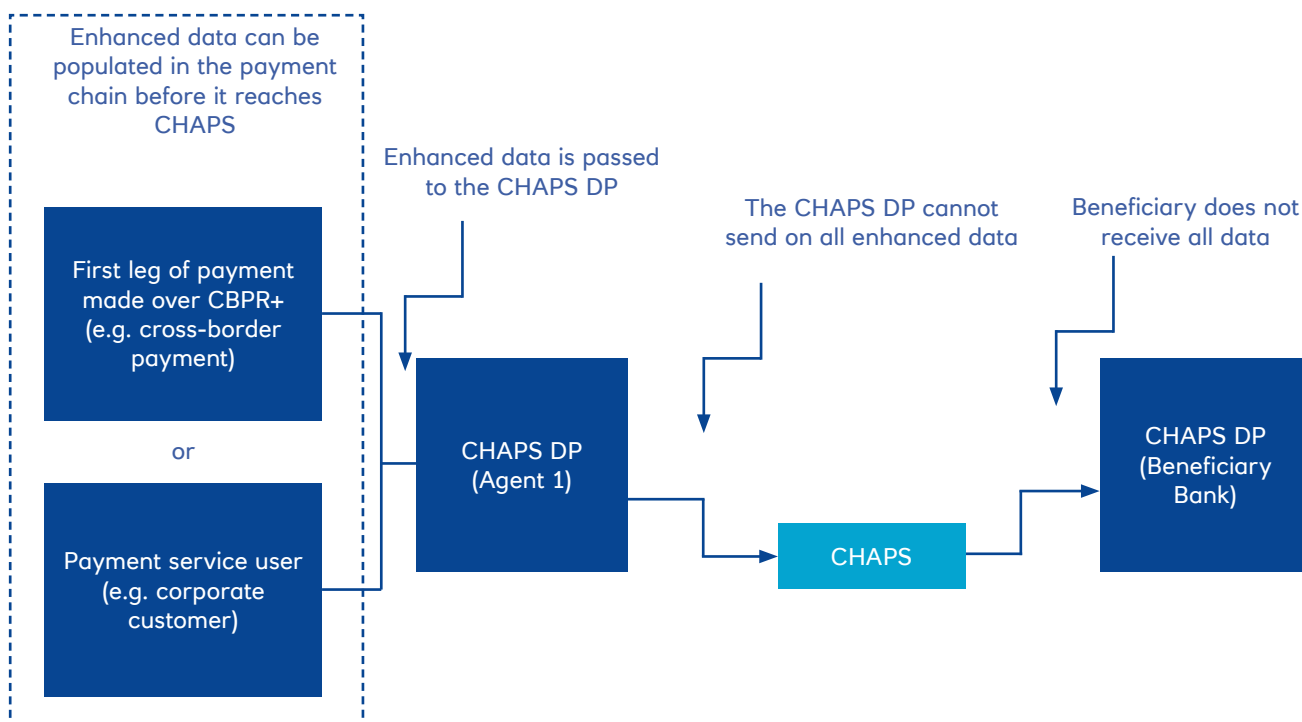
The risk of information being truncated from CHAPS ISO payment messages exists for limited circumstances and a specific timeframe, known as the interim period. The interim period is the period between:

The SWIFT correspondent banking network (CBPR+) enabling enhanced ISO 2022 data (expected to be in November 2022) and;

The CHAPS service enabling enhanced data (February 2023).

During this interim period, the CHAPS service will still only be able to carry data on a 'like-for-like' basis (i.e. the ISO 20022 messages the CHAPS service will use at this point are an almost exact mapping from the current data currently used in MT messages today).

However, when the SWIFT correspondent banking network goes live with ISO 20022 (CBPR+), any SWIFT participant will be able to send and receive enhanced data (i.e. additional data or new fields that are beyond what can be carried in the current MT messages – such as longer fields, LEIs and Purpose Codes) to/from another SWIFT participant. It is therefore possible that GBP payments that originate from correspondent banking relationships might contain additional, enhanced data that CHAPS cannot process.



In summary, **any enhanced data – or data that is in addition to what is sent currently via the CHAPS service during – may be truncated. Whilst it is highly unlikely that any CHAPS payment containing enhanced data will fail – as only additional data not core to settlement of the message will be truncated – it may delay processing of the payment.**

Please also note that it is the quantity of information that causes the issue; presenting the same quantity of data as can be carried in an existing MT message, but populated in a different way (e.g. using different fields/tags in the ISO message) will not cause truncation issues.

Remedial action

In order to manage the risks around truncation, and in particular ensure that:

Beneficiary organisation and their customers receive all the data they expect to receive from the sending organisation – and their customers;

All parties in a payment chain – especially the sending organisation and its customer – understand how their data is carried over the new ISO 20022 CHAPS service and how that data can be interpreted before and after the CHAPS payment;

CHAPS DPs can meet their obligations around specific sanctions, money laundering and terrorist financing checks;

Direct Participants (DPs) of CHAPS have agreed to follow a consistent set of key principles which will apply to all payments processed by them via the CHAPS service, including those of their customers. In line with this, these CHAPS DPs have agreed to communicate the key principles below with relevant stakeholders (i.e. all clients/customers and third parties with which they exchange payment instructions).

Key principles

For the interim period **any GBP payment sent across SWIFT CBPR+ should be populated only as a like-for-like sized message, with no further data included.** Any stakeholder that populates a message that ultimately results in a CHAPS GBP payment shall refrain from including enhanced data, where possible.

Any CHAPS payment messages that include enhanced data and are larger than like-for-like messages will significantly heighten the risk of data truncation and disruption to straight through processing.

There will be a consistent coordinated and documented approach to truncating any data that does not fit in a like-for-like CHAPS message (see Technical Guidance). Where stakeholders cannot prevent the sending of enhanced data, they should familiarise themselves with the cause and effect of sending enhanced data in the CHAPS service during the interim period. For example, if you included an LEI in a CHAPS ISO message, it will be dropped during the interim period if the overall ISO message is longer than an existing MT message.

CHAPS DPs will do all they can to minimise disruption to payments during this period. Industry will create suitable workarounds to ensure that enhanced data is made available to the receiving bank upon request where this is critical to processing the payment (e.g. where additional AML/sanctions checks need to be made). For example, this will include additional channels to pass on that data and additional resource in place to support customers and correspondent banks through existing exceptions and enquiries processes.

Notes: Enhanced Data

For the purposes of this truncation risk issue, enhanced data can be defined as:

Any data that is over and above the current limit for an MT message transmitted via the FIN

network (or when mapped to ISO 20022 known as 'Like-for-like' messages). This can include data such as: ultimate debtor, ultimate creditor, instruction for Creditor Agent, Instruction for Next Agent, and Regulatory Reporting.

Any element or field where more (characters of) information are included in the message than the character limit specified in the 'like for like' message.

Full detail on which fields are prioritised, and which may be omitted or truncated is provided in the Technical Guidance on the Bank's website.

Notes: Wire Transfer Regulation / Funds Transfer Regulation

The Wire Transfer Regulation (also known as the Funds Transfer Regulation) requires each payment service provider of the payer to ensure that transfers of funds are accompanied by the payer's: (a) name; (b) payment account number, and (c) address, official personal document number, customer ID, or date and place of birth. It is therefore particularly important that the payment originator seeks to provide all required information in the relevant fields of the message within the 'like-for-like' character limits wherever possible during the interim period, in order to avoid potential delays in processing.

Further information

Please refer to the Bank's website, for disclosure information relating to those CHAPS DPs that have agreed to follow Technical Guidance, and for the Technical Guidance. The Technical Guidance is in line with international market practice (CBPR plus), which defines what and how participants should (I) map priority enhanced data in the message to other available fields and (II) drop enhanced data that is not a priority. It also defines how a firm can request the full, original message after settlement.

Benefits of ISO 20022

Whilst there is a short period of potential disruption caused by the presence of this interim period, it is important to remember that the adoption of ISO 20022 in the UK's payment systems – and more widely across the globe over the next few years – offers much greater benefits in the longer term. This includes the opportunity to send enhanced, richer data such as structured remittance information, structured address data, LEIs and longer references. However, the CHAPS service will only be able to support the additional data and realise these benefits from February 2023.