



Enhancing the US Wire Transfer Systems Dilemma: ISO 20022 or STP 820?

Intranet Product Users Group

Boston, Ma.

June 4, 2007

Situation

U.S. Wire Transfer Systems – Fedwire & CHIPS
Require Automation Enhancements



What is needed for payment initiation?

- Bank systems require upgrades to provide more wire transfer automation
 - Automatic creation of wires directly from accounts payable systems
 - Business customers ability to export from payables or key in structured remittance information
 - Elimination of faxed instructions to the bank for wire creation



What is needed for payment receipt?

- Business customer receives enough structured information to automatically post to accounts receivable
- Bank information delivery systems need to be upgraded to transmit automated remittance reports
- Banks must supply business beneficiary with all relevant data for automated posting in a standard format



The Standards

- ISO 20022
 - International Standards Organization
 - Universal Financial Industry message scheme (UNIFI)
 - Extensible Mark-up Language (XML)
 - UNIFI an effort to combine multiple XML standards
 - IFX
 - OAGI
 - SWIFT
 - TWIST
 - Rosetta Net

The Standards

- STP 820
 - American National Standards Institute
 - Streamlined version of ANSI X12.820
 - Defines minimum number of data elements for automated posting and reconciliation
 - Does not deviate from original standard
 - Full compatibility with companies and banks using 820 standard
 - Simplifies coding for banking software vendors



ISO 20022 – Remittance Information

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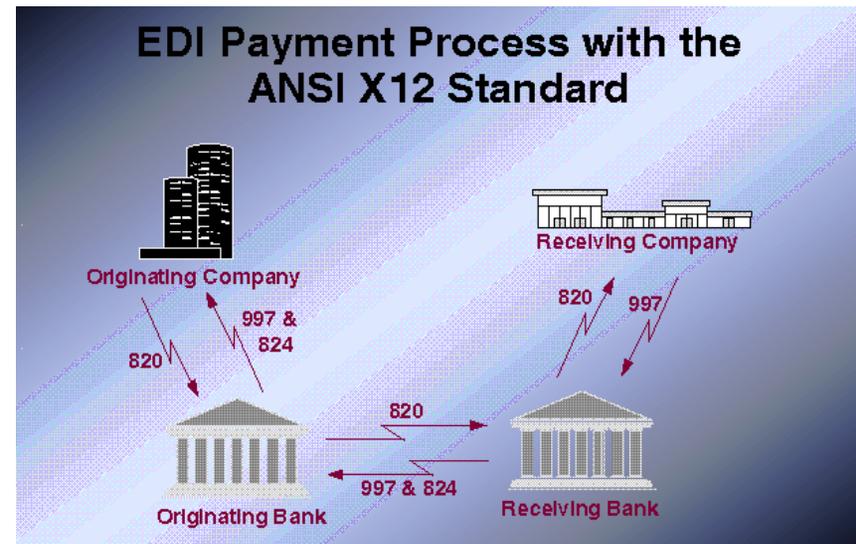
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STP 820 – Remittance Information

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B2B Payments Opportunity

- Domestic
 - The Federal Reserve Study (2001) - 4+ billion payments
 - New study this year
- Global
 - The Clearing House Study – 85 million payments
 - Includes payments already being made by wire and bank proprietary systems
 - Based on 75% of U.S. major trading partners



ISO 20022 - Benefits

- Based on current technology
- Brings multiple standards together
- Global standard potential
- Currently being implemented in Europe
 - Key for implementing SEPA
 - No other viable alternative
 - Time frame for full implementation is extended



ISO 20022 - Barriers

- Cost to the U.S. banking and business community to implement
 - No return on investment for payments system operators or financial institutions (over 15,000 FIs in the US)
 - Businesses of all sizes will need to implement it in their enterprise resource planning (ERP) or accounting systems
 - Cash management and accounting software providers will need to implement the complex standard into their accounting packages
 - Financial Institutions will need to develop remittance delivery capability using the new standard for their business customers
- 20 years before ISO 20022 is broadly adopted by US businesses
- The standard is unproven in any payments systems



STP 820 - Benefits

- Speed to market - large corporations are able to process the STP 820 in their ERP packages without any upgrades or changes
- Cash management software vendors are already implementing the STP 820 for their ACH offering
- Minor implementation effort for vendors for wires
- Banks already have EDI delivery platforms that can be used to deliver the STP 820 to their business customers today
- This is the first step to streamlining front-end applications for business customers
- Most corporations do not have XML in their five-year plan for payments



STP 820 - Barriers

- U.S. Standard
- Some banks do not believe the systems should be upgraded for B2B traffic
- Global banks only want to upgrade once



Corporates' Expectation

- Wanted a structured remittance capability for wires for 3+ years
- Do not want to wait 10-15 years
- AFP Payments Advisory Group sent a letter of support for STP 820
- AFP group opposes implementation of ISO 20022 in the near term



Solutions

- Implement STP 820 for wires now
- Ensure that formats can be mapped
- Include 9000 characters of remittance for Fedwire
 - CHIPS has it
 - SWIFT MT103 Remit
- Additional remittance space allows:
 - Reduced expense by all parties to implement
 - ISO 20022 to be carried by SWIFT, CHIPS or Fedwire
 - Banks that want to use ISO can



Next Steps

- Fedwire and CHIPS need to solidify their course of action
- Need bank commitment for implementation on origination and remittance delivery
- Work with the software vendors to implement the standard
- Operators may need to supply a white label remittance delivery capability – centralized or stand-alone





Questions?