

BUSINESS JUSTIFICATION
FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

A. Name of the request:

Extended Remittance Advice Messages

B. Submitting organisation(s):

These messages are submitted by IFX and OAGi. Each organisation is co-submitting as a distinct organisation in order to provide the best possible coverage and response to feedback and maintenance needs. The requested messages will be aligned with the work performed in TBG1 of UN/CEFACT.

C. Scope of the new development:

The ISO20022 Customer Credit Transfer Initiation Message and Customer Direct Debit Initiation Message and the counterpart interbank messages each provide the possibility of including remittance advice information through two components: Related Remittance Information and Remittance. Their inclusion in these messages recognises the essential role remittance information plays in customer transfers and direct debits. However, use of the components also requires using several elements related to payment or debit directly. This either prevents or makes cumbersome the use of ISO20022 as a remittance advice alone.

The proposed messages intend to create counterpart, stand alone remittance messages using the existing elements in the current version of the messages. The elements in the current version of remittance components have already been aligned with the STP820 to be used in the US as part of wire instructions. These messages can be used to send remittance advice information to a financial institution, to customers directly or passed to another financial institution via a clearing system format supporting these messages.

Two “counterpart” messages will be carved from the existing version of customer and interbank initiation messages:

- The “Remittance Advice Location Message” allows the originator of the message to identify where the remittance advice is located for a related payment.
- The “Remittance Advice Message” allows the originator to provide remittance details that can be associated with a payment.

The content of the Remittance Advice message further enhances the content existing in the Remittance Information component in the Credit Transfer and Direct Debit Initiation messages by:

- Adding those elements contained in the Initiation message necessary to identify a payment associated with the Remittance Advice, thus allowing the Remittance Advice to be re-associated with the payment received;
- Creating invoice line item detail, largely leveraging the existing remittance components;
- Including the tax component, intended to be used in the customer-to-financial institution initiation message for tax related remittance.

Upon completion of this work, it is likely that a change request will be created for the existing ISO 20022 messages to include this proposed remittance information component.

The conveyance of remittance information is typically part of the payment initiation workflow, therefore the messages will be part of 'pain' message domain and the Payment SEG should be assigned lead evaluation of this business justification. The Trade SEG could serve as a secondary participant.

Use of an alternative syntax is NOT envisioned.

D. Purpose of the new development:

Remittance advice information can be sent several ways today:

- As a separate communication between the buyer and the seller;
- As supplemental elements included with the payment in the ISO20022 initiation message or other non-ISO20022 payment initiation message (e.g., Swift, Wire or ACH);
- Delivered separately as remittance location identification or remittance information provided with the ISO20022 initiation message;
- Delivered separately as remittance location identification or remittance information provided with a non-ISO20022 payment initiation message (e.g., Swift, Wire or ACH).

The current ISO20022 initiation messages do not allow their usage as a remittance advice "only" message. This inhibits the ability to complete the business process from payment initiation through reconciliation including, but not limited to, the fact that several clearing systems contain strict limits on the amount of remittance information allowed across their systems. The proposed development allows that remittance information to also be sent separate from the payment in a consistent format with a specific reference to the associated payment

As clearing systems expand their offerings to include the ability to handle remittance information in XML, the creation of these "remittance only" messages allows them to leverage ISO20022 without unnecessary duplication of payment elements. For example, the National Automated Clearing House in the U.S. has recently surveyed banks on the potential addition of XML remittance information. Although ISO20022 was highlighted in key responses as the desirable "XML container," there is no ISO20022 message that can be easily inserted.

The creation of a standalone remittance advice also encourages the use of ISO20022 in the broader purchase-pay-reconcile cycle. In the past, a significant amount of remittance information has been transmitted using proprietary formats.

The EndToEndId, a key benefit of the existing messages for reconciliation of payments, can also be included in the remittance advise message. The addition of these stand alone messages, in combination with use of the EndToEndId allows for a complete payment and reconciliation process to happen using ISO20022 on an end-to-end basis.

With the alignment of the work of TBG1 (UN/CEFACT), the interoperability between EDIFACT invoice data and ISO20022 remittance data can be facilitated more easily. This allows an easier migration path between legacy EDI and XML standards.

E. Community of users and benefits:

1. Users/Usages

In the march toward a paperless society, the electronic payments enterprise is an important commercial opportunity to promote convenience, efficiency, cost reduction as well as environmental sustainability. However, there is mixed news with respect to growth of electronic payments in the U.S.

Overall U.S. electronic payment (ACH, credit/debit card – exclusive of wire) volume surpassed check payment volume in 2003, according to the Federal Reserve Payment Study of 2004. The galloping growth of electronic payments continues, and the Federal Reserve reported that three-quarters of all U.S. noncash payments were made electronically by 2010.

However, the successful migration to electronic payments is being seen exclusively in consumer payments. Checks stubbornly remain the preferred choice for B2B payments, representing 73% of all B2B payment volume according to a 2010 NACHA study. The ability to exchange accurate remittance data is a key barrier to overcome. For example, a 2010 payments study by the Association of Financial Professionals (AFP) cites the challenge of exchanging standardized remittance information (e.g., information shared between a seller & buyer that provides a detailed accounting regarding the provisioning of goods &/or services relative to a payment) as a primary inhibitor of further growth.

There is a significant difference in the data requirements for the large number of vertical markets. The variation of data makes a standard specification difficult. Additionally, exchanging remittance information between buyers and suppliers is complicated by the plethora of available solutions, formats and data transmission approaches. Developing an ISO remittance standard is one way to address this key barrier. Defining an internationally recognized remittance data dictionary and format can help streamline data exchanges and improve straight-through electronic processing of electronic payments, providing greater standardization and more robust functionality.

An ISO remittance standard will benefit parties in the payment process, including:

- Payment networks like the U.S. Automated Clearing House – and other ACH's and settlement systems – that can carry both payment and remittance data. Having an international standard will enhance the value of sending remittance data through such networks, and will enable the networks to support the next generation of formats;
- Entities such as Value Added Networks (VANs) that provide remittance data transmission services for payment re-association;
- Banks and payment solution providers that have to maintain multiple unique coding translations to support their corporate customers' data exchanges via proprietary formats;
- Businesses struggling with the complexity and variety of the data specific to vertical markets which can be addressed using the ISO modelling methodology to capture these requirements;
- Corporates (including both payment remittance originators and receivers) that require accurate and complete remittance information. Without a standard the

community supports, corporates will to be cautious about accepting electronic payments as the remittance detail is often insufficient;

- Small businesses which currently rely almost exclusively on mail and email exchanges of remittance data, will be able to implement a more accessible ISO solution.

2. Benefits

There is tremendous interest in greater adoption of B2B electronic payments. Having an international remittance standard is a key ingredient for increasing B2B electronic payment and accruing the benefits as stated. Given the ability to improve remittance processes, AFP, in their 2010 payments study, said “Treasury practitioners are much more interested in adopting electronic payments to drive internal efficiencies, improve working capital and increase their control over payment operations to reduce fraud exposure, improve accounting/reconciliation and enhance cash forecasting.”

This corroborates the prevailing industry view that electronic B2B payments, compared to check payments, can:

- Lower remittance processing costs. Paper-based payment transactions are costly due in large part to the manual processing requirements. Electronic processing of payments and remittance data removes many of the personnel and other expenses that are required to handle paper remittances;
- Accelerate cash flow. Electronic payments improve cash flow and forecasting predictability, and decrease days sales outstanding (DSO), all of which eliminate the uncertainty of mail and enhance cash management processes. This applies to payers too, who can better control the timing of payments and better manage early payment discount opportunities;
- Expand fraud controls. Electronic payments provide an improved audit trail, and are now being integrated with standard fraud controls like Positive Pay;
- Improve data accuracy. Check processing is prone to higher error and exception processing rates than electronic payment processing. Accurate electronic remittance data can be automatically posted to accounts receivable systems, eliminating manual reconciliation and re-association procedures.

There is further support specifically for an XML remittance standard, and respondents to a 2009 NACHA Request for Comments on the use of XML in the ACH cited these benefits, indicating a standardized ISO-XML message would:

- Save corporations the expense and time required for proprietary XML translations as more of the supply chain processes are increasingly becoming XML enabled;
- Allow banks and other remittance providers to extend value-added services to their corporate customers;
- Simplify the process for small businesses which find existing formats too complex;
- Help the migration from EDI and provide a next generation option for clearing systems that can accommodate complex payment information.

3. Adoption Scenarios

There are number of adoption scenarios to address market needs and practices in the U.S. that also have implications for international payments as well.

3a. The U.S. Automated Clearing House (ACH) Network

NACHA, the governing body for the ACH, has an immediate need to support XML formatted remittance data to facilitate both the association and re-association payment/remittance data models. Recognizing that developing an ISO specification could take some time, NACHA has both a short-term and long-term strategy.

- Ultimately NACHA prefers to reference supported external standards. For example, NACHA Rules permit the use of standards developed by X12. Similarly, the preference for enabling XML to be used in the ACH is to refer to a recognized standards body, like ISO, to define the XML specification. Once ISO approves a remittance specification, NACHA can update the Rules to provide guidance on using ISO messages.
 - This process will enhance international electronic B2B payments too as it will enable services like FedGlobal (a product of the Federal Reserve) to send/receive cross border payments with ISO standardized remittance data to/from 30+ countries.
- Illustrating the urgency of need for an international standard, NACHA anticipates that in 2012 NACHA will develop “opt-in” guidelines for ACH users that would like to send/receive XML remittance data via the ACH (which is generally not allowed). This means NACHA will facilitate multi-lateral agreements that will bind participants that “opt-in” to specific rules regarding the use of XML. The rules would only impact those organizations that “opt-in” to participate, and would not apply to the universe of ACH users (currently, all ACH users are bound to the entire NACHA Rules). The precedence for this is NACHA’s EBIDS (Electronic Billing and Information Delivery Service) product which allows billers to distribute electronic bills to consumer bank accounts. EBIDS transactions contain NACHA defined XML addenda records (as there is no available standard that is widely accepted at the moment).
 - NACHA is also exploring the feasibility of allowing XML formats developed by the Federal Reserve for CHIPS (the wire system) to be exchanged through the ACH as well. This would provide an agnostic payment system opportunity for sending/receiving remittance data. NOTE: The Federal Reserve XML formats contain specifications from the ISO library, but are not an ISO approved specification.

3b. Other Network Provider Opportunities

There are a number of other payment providers, such as SWIFT, CHIPS and FedWire, which could use ISO XML messaging as well. Standardized XML could provide them and others with a better opportunity for data integration among their users, as well as users of other networks.

3c. Accounting Software and Service Providers

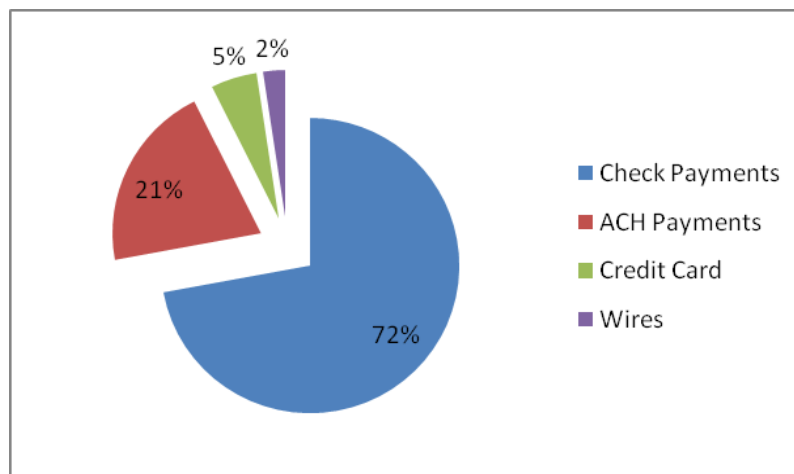
Accounting Software and Service providers address both large and small businesses. Those providers could use ISO XML messaging as well. Standardized XML could provide Accounting Software and Service providers with a better opportunity for data integration among their users, as well as users of other accounting software. In addition, banks can integrate the standards into their service offerings as well to support their larger corporate customers.

4. Volumes/Timeframes

In spite of the widespread availability of B2B electronic payment solutions, adoption is lagging significantly, which makes checks the most frequently used B2B payment tool. Adoption is even lower when it comes to small businesses with revenues less than \$5,000,000. There is an opportunity to increase the volume of electronic payments. Improving data quality through standardizing remittance exchanges is a key enabler.

According to a NACHA funded study, in 2009 there were 8.4 billion annual B2B payments made in the U.S. Only 28% of these payments were electronically executed. This means the theoretical volume of electronic payments includes an additional 6 billion payments annually. Meanwhile, it is estimated that only 13% of electronic payments currently being transmitted through the ACH contain enough remittance information to be automatically posted to the receiving companies' billing or accounting systems.

US B2B Payments by Volume - 2009



Source: NACHA/Paystream Advisors, 2010

Drilling deeper into the data, it is also apparent that the greatest opportunity – in terms of volume – is assisting the small business market which constitutes approximately 65% of total US B2B payment volume..

According to the 2009 NACHA Request for Comments on XML in the ACH, there is market demand for supporting XML data in the ACH network. Most respondents view XML adoption as consistent with industry trends if not inevitable. In addition, service providers anticipate offering corporate customer benefits that can be converted to financial benefit, especially when viewed in a 3-5 year time horizon, following the ability to use standardized XML messages in the ACH.

There is every reason to conclude that the above data from the US is indicative of global trends.

5. Sponsors and Adopters

The need for extended remittance support was identified during the adoption of ISO 20022 Payment Initiation messages. It is expected that the remittance messages will be adopted by organizations currently using ISO 20022 payment initiation and cash management messages.

Adoption of an ISO20022 remittance message also strongly aligns with NACHA's strategic vision on standards that can expand the usage of B2B electronic payments. It also demonstrates commitment to next generation payment processes and formats based on international standards.

The number of U.S. Automated Clearing House (ACH) Network payments exceeded 19.4 billion in 2010, representing approximately \$30 trillion in value. In absolute terms, U.S. ACH volume is among the highest in the world. With an internationally recognized remittance standard, NACHA believes it can exert leadership and positively influence adoption.

NACHA is diligently working with organizational standards and leadership groups in the U.S. payments industry, including ACH stakeholders and standards bodies like IFX, X9, and the Remittance Coalition to effect this change.

F. Timing and development:

The two proposed remittance messages (remittance location and remittance advice) will utilise the existing payment elements, supplemented by elements required to allow the messages to stand alone. They will also leverage the existing credit and direct debit initiation models and message definition report published by ISO20022.

These messages and the related model are targeted to be submitted in June 2012. It is desired that they be published and usable in 2012. A delay in making a standalone version of the initiation message remittance components will only encourage systems and users to search out alternatives to ISO20022 to meet this need.

The work will be completed by a consortium of IFX, OAGi and invited representation from UN/CEFACT. Further engagement may be requested from the AFP in the US, the US Federal Reserve-led Remittance Coalition and the EACT in Europe.

G. Commitments of the submitting organisation:

The submitting organisations confirm that they can and will:

- undertake the development of the candidate ISO 20022 business models and message models that it will submit to the RA for compliance review and evaluation. The submission will include Business Process Diagram (activity diagram), Message Flow Diagram (sequence diagram) and examples of valid XML instances of each candidate message and other descriptive material that will be used by the RA to generate the Message Definition Report;

- address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.

The submitting organisations confirm that they will promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of their submission to the RA.

The submitting organisations are not planning a specific pilot or test phase at this point in time. Their use should be consistent with the pattern of payments message adoption.

The submitting organisations confirm they are committed to initiate and/or participate in the future message maintenance.

The submitting organisations confirm their knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organisations, as follows.

“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.

H. Contact persons:

The following key contacts represent the submitting organisations:

- Susan Colles, IFX: susan.k.colles@baml.com
- James Kueffner, IFX Liaison and Interoperability Work Group, IFX, james.kueffner@aciworldwide.com
- David Connelly, OAGi: dmconnelly@oagi.org

I. Comments from the RMG members and disposition of comments by the submitting organisation:

Comments from the UK on Extended Remittance Advice BJ

"The submitting organisations have stated that the requested messages will be aligned with the work performed in TBG1 of UN/CEFACT. Currently there is no formal coordination with UN/CEFACT, and TBG1 is no longer in existence. The UK would like to understand what shape this coordination will take going forward."

Disposition of UK comments by the submitting organisations:

The alignment was made well over a year ago through Stig Korsgaard. Any participation from member organizations in UN/CEFACT is welcome as the message content is refined for submission. Once published, change requests could be submitted if changes are deemed necessary based on other standards, just like any other message published by ISO 20022.

South African comment

South Africa supports the proposed development of extended remittance advice messages which underpins domestic and regional strategies for adoption of ISO20022 Customer Credit Transfer Initiation and Customer Direct Debit Initiation Messages

Disposition of South African comments by the submitting organisations:

Thank you for your support.