**Business Justification**

**for the development of new ISO 20022 financial repository items**

1. **Name of the request:**

Documentary Credit Issuance Messages

1. **Submitting organisation(s):**

Cross-Border Interbank Payment System (CIPS Co., Ltd.)

The Bund Square, 100 South Zhongshan Road,

Shanghai 200010,

China

1. **Scope of the new development:**

This submission is related to messages on documentary credit issuance.

The following table outlines the financial instruments, business area and business process of this request.

|  |  |
| --- | --- |
| Financial Instruments | Administration |
| Business Area | Trade Services(ts) |
| Business Process | Trade Services Initiation (tsin) |

Business Roles

| Description | Definition |
| --- | --- |
| Applicant | The party at whose request a transaction or service (of the documentary credit) is to be undertaken. |
| Issuer | Party that issues the documentary credit.  |
| Advising Bank | The bank requested to advise the documentary credit. |
| Beneficiary | Party in whose favour the documentary credit is issued.  |

In order to get the documentary credit issuance, we will submit the messages below:

* DocumentaryCreditApplication
* The DocumentaryCreditApplication message is sent by the party requesting issuance of the documentary credit (applicant) to the party issuing the documentary credit (issuer). It is used to request the issuance of documentary credit, and provides details on the applicable rules, terms, conditions and content of the documentary credit to be issued.
* The message is also sent by the issuer to the advising bank to offer information on the documentary credit. Upon receiving the message, the advising bank sends the DocumentaryCreditReply message to the issuer in response (as described below).
* DocumentaryCreditIssuanceNotice
* The DocumentaryCreditIssuanceNotice message is sent (and is thus issued) by the party issuing the documentary credit to the applicant. It contains details on the applicable rules, expiry date, the amount, required documents, and terms and conditions of the documentary credit. The message constitutes an operative financial instrument.
* DocumentaryCreditResponse
* The DocumentaryCreditResponse message is sent by the advising bank to the issuer to notify that the DocumentaryCreditApplication message has been received by the advising bank.
* DocumentaryCreditIssuanceAdvise
* The message is sent by the advising bank to the beneficiary to notify that the documentary credit has been issued already.

The following diagram depicts the Documentary Credit Issuance messages flows:



CIPS proposes that Trade Services SEG should be assigned the evaluation of the candidate ISO 20022 messages.

CIPS supports optional use of BAH with all of the proposed messages.

CIPS intends to deploy the future messages in the ISO 20022 XML syntax.

1. **Purpose of the new development:**

Currently, there are no relevant ISO 20022 messages that could perform the task of documentary credit issuance. Developing the new messages helps to fill the existing gap and enhances the implementation of ISO 20022 in the application and issue of documentary credit regarding trade services. Thus, CIPS decides to pursue standardized and transparent messages to better manage the system.

Generic benefits to the industry are highlighted as follows:

* Standardize business process of documentary credit issuance
* Develop ISO 20022 messages which can be implemented by market participants more easily and at a lower cost
* Ensure efficiency, accuracy and consistency of documentary credit issuance
1. **Community of users and benefits:**

These messages are designed to address market needs regarding documentary credit issuance.

Benefits and savings:

* Applicants and beneficiaries: use of common nomenclature and terminology among participants by adopting a single standard will enhance the efficiency and transparency of documentary credit issuance in the field of trade services.
* Issuer and advising bank: Standardized format and business information will improve the efficiency and security of documentary credit issuance.

Adoption scenario:

Documentary Credit Issuance Messages were designed and successfully put into operation by CIPS in 2022. They are currently being used by CIPS participants and enterprises. After the ISO 20022 submission is approved, participants will continue to use these messages and the adoption will be further improved.

Volumes:

As of December 2022, CIPS has more than a thousand participants using CIPS system for payment and settlement. The year 2022 saw more than 4,000,000 trades processed through CIPS and the transaction value exceeded 90 trillion yuan. The growth is expected to continue with the expanding cross-border business and growing demand for cross-border transactions.

Sponsors and adopters:

The adoption is advocated and designated as mandatory by CIPS and it is already deployed to participants.

1. **Timing and development:**

CIPS plans to complete the message development and registration process in Q2 2024.

Candidate ISO 20022 message models and Message Definition Report will be developed and submitted to the RA in Q4 2023.

* We know that there is no other standard initiative involved in an effort to submit a Business Justification relating to documentary credit issuance.

After the whole process is completed, this message can better serve participants and can be used in a more unified way.

1. **Commitments of the submitting organisation:**

CIPS confirms that it can and will:

* undertake the development of the candidate ISO 20022 business and message models that it will submit to the RA for compliance review and evaluation. The submission must be compliant with the [ISO 20022 Master Rules](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) and include a draft Part 1 of the Message Definition Report (MDR) compliant with the [template for MDR part 1](http://www.iso20022.org/documents/general/ISO20022_MasterRules.ZIP) provided by the RA, the [ISO 20022 Message Transport Mode](http://www.iso20022.org/documents/general/MessageTransportModes.xls) (MTM) that CIPS recommends to consider with the submitted message set, and examples of valid instances of each candidate message;
* address any queries related to the description of the models and messages as published by the RA on the ISO 20022 website.

CIPS confirms that it will promptly inform the RA about any changes or more accurate information about the number of candidate messages and the timing of its submission to the RA. If CIPS does not submit the candidate messages within the timing announced in section F and does not inform the RA beforehand, the business justification may lapse and require re-submission of a new business justification for approval by the RMG.

CIPS confirms that it intends to organize any testing of the candidate messages once they have been reviewed and qualified by the RA and before its submission to the SEG(s) for approval. The testing is expected to complete in September 2023 and the candidate message will be re-submitted to the RA for SEG(s) approval. CIPS confirms that it will promptly inform the RA about any changes or more accurate information about the timing of this re-submission to the RA. If CIPS does not re-submit the candidate messages as announced and does not inform the RA beforehand, the business justification may lapse and require re-submission of a new business justification for approval by the RMG.

CIPS confirms that it is committed to undertake the future message maintenance.

CIPS confirms its knowledge and acceptance of the ISO 20022 Intellectual Property Rights policy for contributing organizations, 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 license to use the published information”.*

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1. **Comments from the RMG members and relevant SEG(s) or SubSEG(s) and disposition of comments by the submitting organisation:**

# Comments from the Swiss community

Submitter of comments: Rainer Vogelgesang (head of Swiss RMG delegation)

Date: 12 May 2023

Commentary:

The Swiss Association for SWIFT and Financial Standards (SASFS) is the representative organisation for financial standardisation in the financial centre of Switzerland and Liechtenstein.

The SASFS welcomes the initiative of Cross-Border Interbank Payment System (CIPS Co., Ltd.) as submitting organisation (SO) of this BJ to move forward the ISO 20022 standardisation in the Documentary Credit (commercial Letter of Credit) space.

Whilst we support the intent of the BJ and the creation of Documentary Credit messages and appreciate the well-conceived proposal, there remain a number of areas of concern.

We believe that the focus on the Documentary Credit issuance process is a suitable approach that should be completed later on by messages supporting document submission/availment and settlement.

Latest developments in the bank guarantee space combine the issuance and amendment process and it might be sensible to align the scope to the guarantee space and to integrate the amendment process. This would mean that an additional message between beneficiary and the bank is needed to provide agreement/disagreement to an amendment.

Regarding the business roles, we would prefer to align the definitions to the ones used in the Uniform Customs and Practice for Documentary Credits (UCP) of the International Chamber of Commerce (ICC), Paris, as follows:

* Applicant: The party at whose request the credit is issued (instead of … a transaction or service (of the documentary credit) is to be undertaken).

Explanatory statement: Only the issuance of the instrument gives birth to the roles – without documentary credit, no applicant. Therefore, “issued”, not “to be undertaken”.

* Advising Bank: The party that advises the credit at the request of the Issuing Bank (instead of The bank requested to advise the documentary credit).

Explanatory statement: Only once the credit is advised by another party than the Issuer, the role of the Advising Bank has been created. A party requested to advise but not having done it is not (yet) an Advising Bank.

Regarding the Messages, we request to change the proposed flows.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Sender** | **Receiver** | **Message** | **Doc.Credit** | **Stauts** |
| 1 | Applicant | Issuer | DocumentaryCreditApplication | Does not exist | Requested |
| 2 | Issuer | Advising Bank | DocumentaryCreditInstrument\* | Exists | Issued |
| 3 | Issuer | Applicant | DocumentaryCreditNotification | Exists | Issued |
| 4 | Advising Bank | Beneficiary | DocumentaryCreditAdvice | Exists | Advised |
| 5 | Advising Bank | Issuer | DocumentaryCreditResponse | Exists | Advised |
| (6 | Beneficiary | Advising Bank | DocumentaryCreditResponse | Exists | Advised) |

\* This is the operative (financial) instrument, not the transmission of it by the advising bank to the beneficiary (= advice)

Explanatory statements:

* The message sent by the issuer to the Advising bank cannot be an application, since the documentary credit is issued and is the operative instrument (already).
* The application contains bilateral information between Applicant and Issuer that must not be transferred further to the advising bank
* It might be considered to use the same message for issuing a documentary credit and for advising it, being aware that in the advising message, statements of the advising bank will be added to the instrument.
* It might be considered to use the same message between (Beneficiary and Advising Bank [6],) Advising Bank and Issuer [5] as well as Issuer and Applicant [3]

Therefore, the description of the messages should be adapted accordingly

* DocumentaryCreditApplication, 2nd bullet, … also sent by the Issuer to the Advising Bank should be removed
* DocumentaryCreditApplication, 2nd bullet, … sends the DocumentaryCredit**Reply** message to the issuer … but no such message is listed, should probably read DocumentaryCredit**Response** message.

It is to be noted, that an Issuer may send the Documentary Credit directly to the beneficiary without using an Advising Bank. On the other hand, several Advising Banks may be involved (1st Advising Bank, 2nd Advising Bank, 3rd Advising Bank).

Furthermore, we cannot follow the reasoning for using the message “DocumentaryCreditApplication” not only for the application but also for the issuance of the Documentary Credit. We would have expected an additional message to fulfil this distinct purpose.

Regarding the adoption scenario, we understand that predecessor messages have been put into operation since no ISO 20022 messages have yet been defined. Is the intention to migrate the current messages to the to be ISO 20022 messages and how is the transition intended to happen.

Whilst we cannot agree with the BJ in its current form, we believe that, with the proposed aforementioned changes, it should be possible with reasonable effort to produce an amended version of the BJ for approval.

We look forward to the responses of the SO to the points raised above and remain available for further considerations in relation to this BJ.

**Comments from Swift**

* From the flow, we understand, only ‘application’ and ‘advice (plus notification and response) have been take into consideration. Does CIPS plan to expand the messages for the rest of the business flows like amendments, acknowledgements, reimbursements etc.?
* Does the structure allow for multiple parties?
* One statement in the BJ states = “These messages are designed to address market needs regarding documentary credit issuance.” Do the messages also address domestic market needs?
* We recommend combining this submission (BJ219) with the Documentary Credit Revision submission (BJ221)