

## ISO 2022 - Is your sanctions screening already fit for the new payment transactions standard?

### Optimise sanctions screening with Siron® Embargo, increase compliance efficiency and effectiveness

#### Impact of ISO 2022 on Anti-Financial Crime Compliance

ISO 2022 introduces a worldwide standardised language for payment data. Based on the Extensible Markup Language (XML) syntax, the new standard is intended to harmonise the increasing cross-border payment traffic and improve communication between the actors.

In the next few years, not only the Euro system and the SWIFT network will convert the old MT formats for payment transactions to XML or the MX format. Other large markets such as the UK and the USA are also following suit. China, Japan, and Switzerland have already gone ahead

The standardisation and migration to XML brings with it a large amount of structured fields and field content that lead to entirely new possibilities for analysis and reporting in anti-financial crime compliance processes. Especially in sanctions screening, the additional data fields of ISO 2022, if used correctly, can significantly improve the efficiency and effectiveness of the filters.

#### The new standard for payment transactions

ISO 2022 is an international, XML-based standard for the exchange of financial transaction data in the various business areas of payment transactions, securities business, foreign trade financing and treasury.

ISO 2022 specifies a metadata repository that describes messages and business processes as well as the maintenance process for the repository content. The new standard, issued by ISO Technical Committee 68 (TC68), covers approximately 700 message formats.

From November 2022, ISO 2022 will be the leading standard in payment transactions, replacing ISO 15022.

Advantages of the ISO 2022 standard:

- Richer, better structured, and more detailed data
- Quality data means quality payments
- Improved analytics, less manual intervention
- Support for end-to-end automation
- Use of modern technology
- Worldwide introduction

## Selected Settlement & Clearing Systems and their ISO 2022 Compliance

| CBPR+  | TARGET2   | TIPS  | SEPA   |
|--|---|---|--|
| <ul style="list-style-type: none"> <li>• “Cross-Border Payments and Reporting Plus”</li> <li>• Anchored in the SWIFT network</li> <li>• Used worldwide, not limited to the euro area</li> <li>• No big bang approach, MT and MX messages possible in transition phase</li> <li>• SWIFT test scenarios and validation tests for transition</li> </ul> | <ul style="list-style-type: none"> <li>• “Trans-European Automated Real-Time Gross Settlement Express Transfer System”</li> <li>• System of the Eurosystem central banks for processing payments in real time</li> <li>• Migration as „big bang“</li> </ul> | <ul style="list-style-type: none"> <li>• “TARGET Instant Payment Settlement”</li> <li>• Part of TARGET2, but technically separate platform</li> <li>• Eurosystem service for the processing of instant payments</li> <li>• Implemented directly ISO 2022 compliant in Nov 2018</li> </ul> | <ul style="list-style-type: none"> <li>• “Single Euro Payments Area”</li> <li>• Covers all euro payments and domestic payments</li> <li>• Introduced to standardise cashless payment transactions</li> <li>• SEPA area consisting of 45 member states (EU + EEA)</li> <li>• SEPA Instant Payment as counterpart to TIPS</li> </ul> |
| Nov 2022 – Nov 2025  | Nov 2022  | Nov 2018  | Since 2008   |

### Information content of structured data

ISO 2022 greatly improves the data quality of transactions. Information is specifically stored in attributes provided for this purpose. The attributes can then be used specifically for further processing steps and can also be used specifically in sanctions screening.

### Relevant information for the sanctions list check

#### Use of the information name

According to the Wolfsberg Group, financial institutes should check names of debtors as well as creditors against sanctions lists. The name fields should not be empty and should not have less than three characters. In addition, the data processing system should allow for similarities using fuzzy logic in the sanctions screening process.

#### Use of the information BIC code

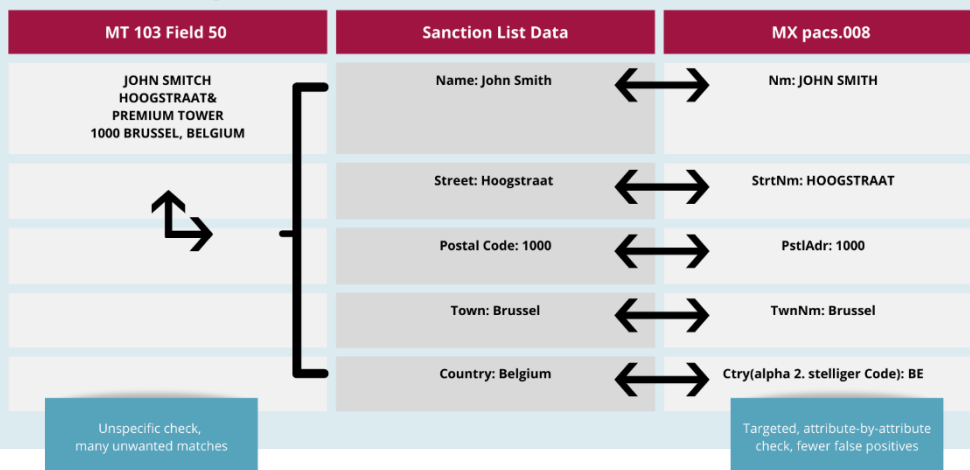
In a transaction, banks and their BIC codes should also be checked for sanctions in accordance with the Wolfsberg Group. Own BIC blacklists can be used to make BICs conspicuous in transactions. SWIFT's BIC directory, for example, can also be used to translate BIC codes into plain text and check them against sanctions list entries.

#### Use of the information address

In the ISO 2022 standard, addresses are in the designated attributes and should only be checked against these in the sanctions lists. The attribute "Ctry" can be used to implement the numeric codes (alpha-2) for indications and a country risk-based approach.

Addresses and names can be checked exclusively against addresses or exclusively against names. This increases the data quality immensely.

### Sanction Screening with Structured vs Unstructured Data



## Relevant message types for the compliance department

| Transaction Type | Business Use Case                             |
|------------------|---|
| Pain.001.001.11  | Initiation of Customer Credit Transfer.       |
| Pacs.008.001.10  | FI to FI Customer Credit Transfer             |
| Pacs.009.001.10  | Financial Institution Credit Transfer         |
| Pacs.009.COV     | Financial Institution 'Cover' Credit Transfer |
| Pacs.010.001.05  | Financial Institution Direct Debit            |
| Camt.057.001.07  | Notification To Receive                       |

Listed above are the transaction types that either contain customer data or transfer money. They depend on the business of a financial institution. The clearing system used also has an influence here.

### Effects on Siron® Embargo

Siron® Embargo can already process MX transactions from version 13 and screen them against sanctions lists. These are the following ISO 2022 messages with SEPA headers: Pain.001 / Pacs.003 / Pacs.008.

Until November 2025, MT-Fin messages will continue to be supported outside of T2S. These will be successively converted to the ISO 2022 format by 2025.

Since version 191101\_p40, Siron® Embargo can also process additional ISO 2022 or MX messages in order to be able to provide sufficient message types with TARGET2/T2S consolidation and CBPR+.

A new, fully configurable parser has been implemented for the changeover, which enables the user to configure additional MX messages. Adjustments to the product on the part of FICO are not necessary.

### Technical changes in Siron® Embargo

For the processing of previously used SEPA message types and new SWIFT or ISO 2022-compliant message types, it is mandatory to use two different parsers. There are differences between the dialects, which lead to parser errors if they are incorrectly assigned. SEPA, CBPR+ and TARGET messages should be technically processed separately.

The clusters developed for processing ISO 2022 attributes are easy for the user to use.

### Business Settings in Siron® Embargo

#### Old vs. new

So far the unstructured MT field 50 must be checked completely with all information against names and addresses on the list.

The complexity is further increased by the various SWIFT variants of a 50 field.

| Type    | Field | Paym. Di | Index      | Weight | Spacing | BIC Length |
|---------|-------|----------|------------|--------|---------|------------|
| default | 49A   | In/out   | mtname     | 1.00   | 0       |            |
| default | 49D   | In/out   | mtnameaddr | 1.00   | 0       |            |
| default | 50    | In/out   | mtnameaddr | 1.00   | 0       |            |
| default | 50A   | In/out   | mtname     | 1.00   | 0       |            |
| default | 50C   | In/out   | mtname     | 1.00   | 0       |            |
| default | 50F   | In/out   | mtfield50  | 1.00   | 0       |            |
| default | 50G   | In/out   | mtname     | 1.00   | 0       |            |
| default | 50L   | In/out   | mtname     | 1.00   | 0       |            |
| default | 51    | In/out   | mtnameaddr | 1.00   | 0       |            |
| default | 51A   | In/out   | mtname     | 1.00   | 0       |            |
| default | 52    | In/out   | mtnameaddr | 1.00   | 0       |            |
| default | 52A   | In/out   | mtname     | 1.00   | 0       |            |

What is new now is that merged fields such as "Nm" are only checked against names on the sanctions list. Addresses are also only checked against addresses on the sanctions list.

Additional indexes can also be created to check even more specific and accurate fields against list data.

| Type    | Field                    | Paym. I | Index     | Weiç | Spac | BIC Length |
|---------|--------------------------|---------|-----------|------|------|------------|
| default | */AddItRmtInf            | In/out  | all       | 1.00 | 0    |            |
| default | */Adr                    | In/out  | mxaddress | 1.00 | 0    |            |
| default | */AnyBIC                 | In/out  | mxname    | 1.00 | 0    |            |
| default | */BIC                    | In/out  | mxname    | 1.00 | 0    | 8,11       |
| default | */BICFI                  | In/out  | mxname    | 1.00 | 0    |            |
| default | */Nm                     | In/out  | mxname    | 1.00 | 0    |            |
| default | */PrvtId/DtAndPlcOfBirth | In/out  | mxpob     | 1.00 | 0    |            |
| default | */PsttAdr                | In/out  | mxaddress | 1.00 | 0    |            |
| default | */Ustrd                  | In/out  | all       | 1.00 | 0    |            |



## Merged fields

A cluster contains all attributes that are classified by "Nm" at the end.

General settings are possible for all "Nm" attributes, for example. This reduces the susceptibility to errors during configuration.

| Type    | Field                    | Paym. I | Index     | Weiç | Spac | BIC Length |
|---------|--------------------------|---------|-----------|------|------|------------|
| default | */AddtlRmtInf            | In/out  | all       | 1.00 | 0    |            |
| default | */Adr                    | In/out  | mxaddress | 1.00 | 0    |            |
| default | */AnyBIC                 | In/out  | mxname    | 1.00 | 0    |            |
| default | */BIC                    | In/out  | mxname    | 1.00 | 0    | 8,11       |
| default | */BICFI                  | In/out  | mxname    | 1.00 | 0    |            |
| default | */Nm                     | In/out  | mxname    | 1.00 | 0    |            |
| default | */PrvtId/DtAndPlcOfBirth | In/out  | mxpob     | 1.00 | 0    |            |
| default | */PstlAdr                | In/out  | mxaddress | 1.00 | 0    |            |
| default | */Ustrd                  | In/out  | all       | 1.00 | 0    |            |

However, Siron® Embargo also allows exact attributes to be configured if exceptions exist. A different index can also be used here. The MX field is fully configurable.

| Type    | Field                                    | Paym. I | Index     | Weiç | Spac | BIC Length |
|---------|--|---------|-----------|------|------|------------|
| default | */AddtlRmtInf                            | In/out  | all       | 1.00 | 0    |            |
| default | */Adr                                    | In/out  | mxaddress | 1.00 | 0    |            |
| default | */AnyBIC                                 | In/out  | mxname    | 1.00 | 0    |            |
| default | */BIC                                    | In/out  | mxname    | 1.00 | 0    | 8,11       |
| default | */BICFI                                  | In/out  | mxname    | 1.00 | 0    |            |
| default | */Nm                                     | In/out  | mxname    | 1.00 | 0    |            |
| default | */PrvtId/DtAndPlcOfBirth                 | In/out  | mxpob     | 1.00 | 0    |            |
| default | */PstlAdr                                | In/out  | mxaddress | 1.00 | 0    |            |
| default | */Ustrd                                  | In/out  | all       | 1.00 | 0    |            |
| default | /Document/FToFICsMrCdtTrf/CdtTrfTxInf/Dt | In/out  | mxname    | 1.00 | 0    |            |



### What messages are relevant?

msg Rethink Compliance supports you in separating relevant message types from irrelevant message types. We advise you on how these should be checked.



### You have not yet got used to the XML structure?

Compliance departments have been working with MT-Fin message formats in sanctions screening since 1995. By November 2022, case management and compliance staff must have familiarised themselves with the new format. We support you in understanding the XML structure and interpreting it correctly.



### The information content of a message is high and can appear confusing.

msg Rethink Compliance has identified the important, compliance-relevant fields and will be happy to advise you on them.



### Which data must be checked against which sanctions list data?

With the changeover to the ISO 20022 standard, banks now have structured data. This data can be used specifically to optimise the quality of hits and to make the best possible use of sanctions lists information.



### Testing is the be-all and end-all for any system relevant application.

The new message formats not only look different they also have to be assessed differently in the context of sanctions screening. This is where msg Rethink Compliance can provide support with the test strategy, implementation and documentation.

Contact us: +49 69 580045-0 or [info@msg-compliance.com](mailto:info@msg-compliance.com)