



Simplifying International Credit Transfers thru Global Standards

International Payments Framework

Overview

Agenda Page

←  What is IPF

←  Goals

←  Organization



IPF—What is it?

- Concept to establish a membership organization providing:
 - Rules
 - Standards
 - Operating procedures and guidelines
- To improve non-urgent cross-border payments through a member service agreement binding members to the operating rules



IPF – Why Now?

- Globalization is driving a broader base of clients, both large multi-national and small to medium-sized enterprises (SMEs), who demand a more cost-effective, less complex, and more certain payment service with a wider reach.
- Why Now? – Industry changes that can enable the proposal:
 - Leverage domestic payment channel changes to go global.
 - Adoption of a recognized global standard. (UNIFI ISO 20022)
 - Expanded global trade.
 - Additional technologies are now available.

IPF Rules

- Would enable:
 - Interoperability between existing domestic or regional payment systems
 - The ability to exchange multi-currency transactions
 - Leverage existing settlement practices



IPF Rules Making Body

- Would provide an overlay structure that enables interoperability between Clearing and Settlement Mechanisms* (CSMs) and banks, with bank members providing transaction volume.

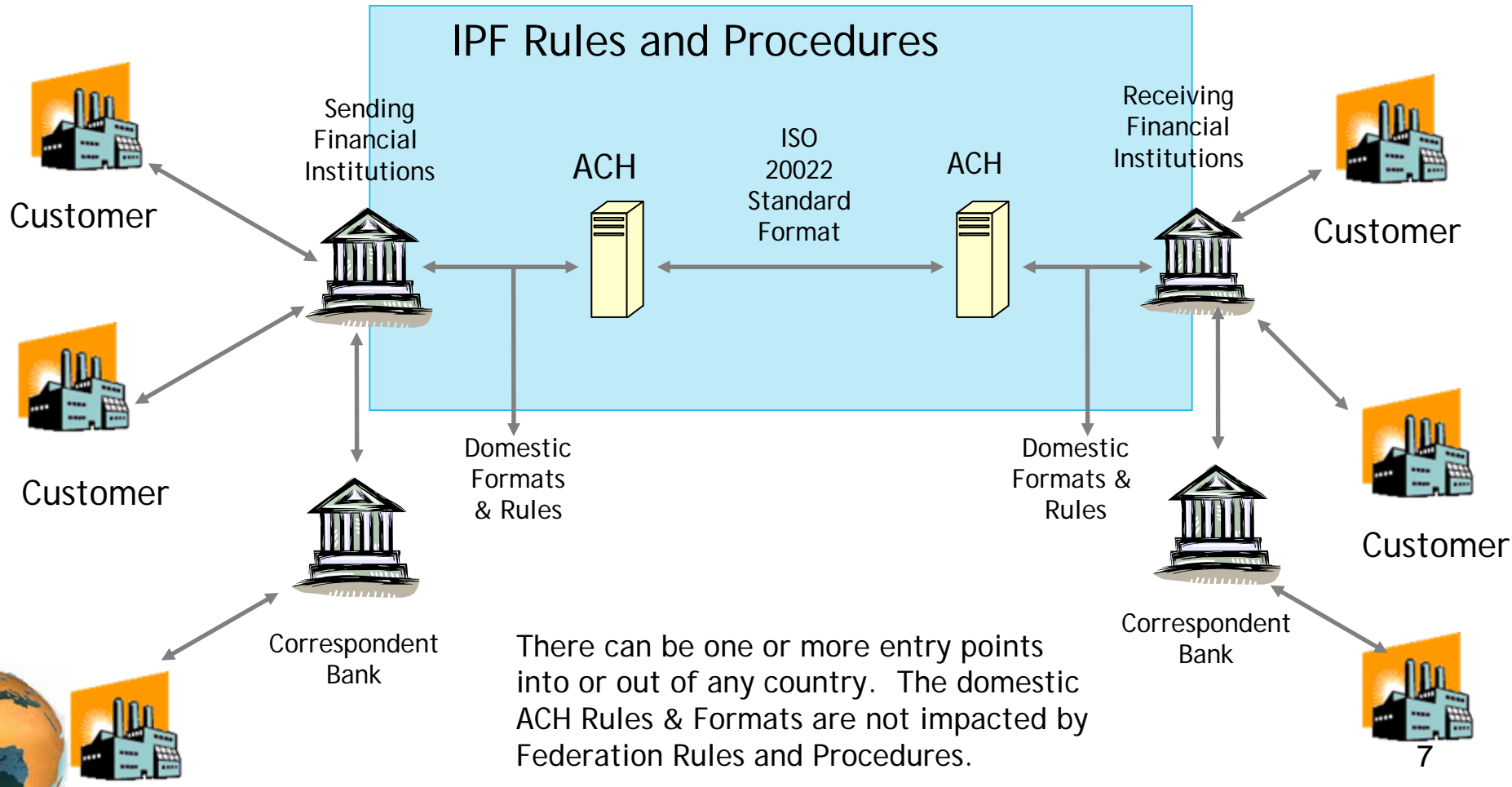
** CSMs in this context does not require SEPA compliance.*

Example of Overlay Structure Model



SEPA

USA



There can be one or more entry points into or out of any country. The domestic ACH Rules & Formats are not impacted by Federation Rules and Procedures.

Phase I

- Representatives from 30 organizations (FIs, CSMs, vendors and central banks) representing 15 countries have evaluated the feasibility of the IPF concept over the last 12 months.
- Benefits identified:
 - Improved services to customers
 - Reduction of costs
 - Reduction of risks
 - Efficient implementation of new countries
 - Expanded global payment services



Phase I Work Groups

- **Governance:** Defined type of organization structure or legal entity, jurisdiction, key functions, membership categories, fee structure, makeup of the governing body, e.g. Board of Directors, voting policies, dispute management, rules development, staffing and management and terms of the IPF members service level agreement
- **Technical:** Evaluated network standards, suppliers and message formats
- **Settlement:** Determined the feasibility of using existing settlement systems for the exchange of payments between IPF member organizations



Phase I Work Groups

- **Business Rules:** Reviewed existing rule books, submitted recommendations for adoption and identified minimum standards and requirements
- **Regulatory Compliance:** Evaluated regulatory compliance issues for the IPF, including Anti-Money Laundering (AML), privacy, terrorist financing and other regulatory impacts in different legal jurisdictions



Benefits to Member Organizations

- With a standard set of operating procedures and processes, member organizations will experience:
 - Simplification of back office processing
 - Lower barriers to extending global reach
 - Certainty of service
 - Improved returns on investment
 - Risk mitigation
 - Improved client value
 - Improved liquidity management



What's next?—Phase II

- Concept Paper completed Phase I
- Phase II—begins 1 April 2008
 - 3-month membership solicitation drive
 - 31 March – Decision on whether to continue with Phase II
 - 4th Quarter 2009—commence processing of transactions between member organizations
- IPF—Out of Scope Items
 - Pricing between IPF members
 - Foreign currency exchange of payment files (files will be sent in local currency and settled through bilateral clearing)
 - Customer pricing



Key deliverables for Phase II

- Development of operating rules
- Development of the member service agreement that binds the IPF members to the operating rules
- Develop rules enforcement and arbitration procedures
- Develop data base of member information
- Develop message implementation guides
- Development of Organization Structure
 - Identification of the legal jurisdiction
 - Establish the appropriate corporate structure based on the best interests of the organizations with considerations of VAT, limits of liability and regulatory environment
 - Establish the Board of Directors



Work Group Reports

- Governance
- Business Rules
- Technical
- Settlement
- Regulatory Compliance



Governance Work Group—Objectives

- Recommend governance structure
 - Legal structure
 - Jurisdiction
 - Voting Policies
- Evaluate existing rule books in the financial industry to determine relevance within IPF scheme
- Determine minimum standards and requirements for membership
- Identify key points of multi-lateral agreement



Governance WG—Phase I Tasks

- Created an Association matrix comparing the following topics: location, funding, power, different levels of membership and jurisdiction
 - FINRA (formerly NASD)
 - IFSA
 - NACHA
 - BAFT
- Created a list of components for the multilateral agreement
- Created topics needed in the overall Governance document



Governance—Recommendations

- Establish two categories of membership:
 - Voting members—banks and CSMs
 - Non-voting members—software vendors, users and association representatives
- Board of Directors comprised of 15 voting members made up of 12 bank members and 3 CSMs which would provide strategic oversight of the IPF
- Establish a Rules Committee that will review, evaluate and recommend a rule change to the Full membership



Governance—Recommendations

- Any members (voting or non-voting) could submit requests for rule changes
- Rule changes would be approved by the voting members
- Jurisdiction, organization structure and the development of the members service agreement will be determined in Phase II of the project



Governance WG Tasks—Phase II

- Form Legal Sub-Group
 - Identification of the legal jurisdiction
 - Establish the appropriate corporate structure based on the best interests of the organizations with considerations of VAT, limits of liability and regulatory environment
 - Development of the member service agreement that binds the IPF members to the operating rules
- Establish the Board of Directors
- Development of rules enforcement and arbitration procedures



Business Rules Work Group— Objectives



- Review existing rule books, submit recommendations for adoption and identify minimum standards and requirements



Business Rules Work Group—Tasks



- Reviewed existing payment rules books from the European Payments Council (EPC) and NACHA
- Developed the recommended Table of Contents for the IPF rules



Business Rules—Phase II

- Develop the IPF Operating Rules
- Develop the Rules Change procedures
- Develop the Enforcement Procedures



Technical Requirements Work Group—Objective



- Maximize the use of existing formats, procedures and models
- Identify gaps in existing processes



Technical WG—Phase I Tasks

- Review current standards and formats
- Evaluate against proposed model
- Processing cycles
- Contingency planning
- Communication requirements
- Data transmission
- Security
- Regulatory requirements
- Acceptance testing and modification procedures



Technical Requirements Work Group—Recommendations



- IP is the protocol of choice
- SWIFTNet FileAct preferred network—others may be used
- File structure as deployed in SWIFTNet FileAct SN Release 6.1 should be used
- Message format—ISO20022 pac and associated messages should be used



- Entities not using SWIFTNet FileAct must ensure:
 - Authentication and encryption
 - Data integrity
 - Non-repudiation
 - Time stamping with audit logs
 - Guaranteed delivery support
 - Secure transfer of files



Technical WG— Recommendations



- Archiving and maintenance of records
- Contingency procedures
- Disaster recovery
- Information to be kept on a data base
- Regulatory requirements



Settlement Work Group— Objectives



- Determine the feasibility of using existing settlement systems for the exchange of payments between IPF member organizations
- Leverage current ACH operator settlement procedures for domestic payments



Settlement WG—Methodology

- Preserve flexibility—a broad array of options have been documented—including ACH-2-ACH, Bank-2-ACH and Bank-2-Bank
 - Some—but not all—of the different options are flowed here

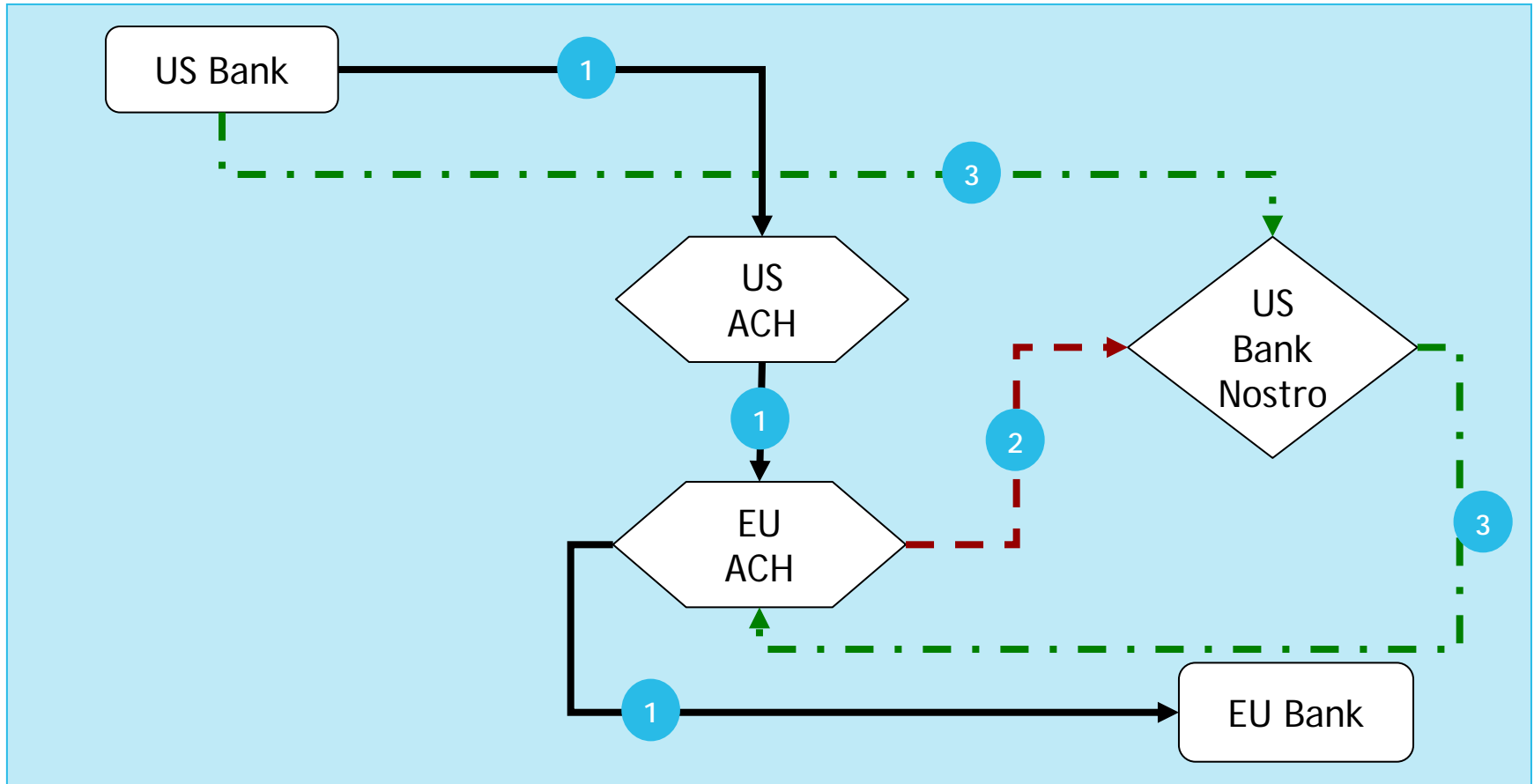


Settlement WG—Core Principles

- ACH-2-ACH is the preferred model because of reach
- USD & EUR expected to be the primary currencies in the initial stage



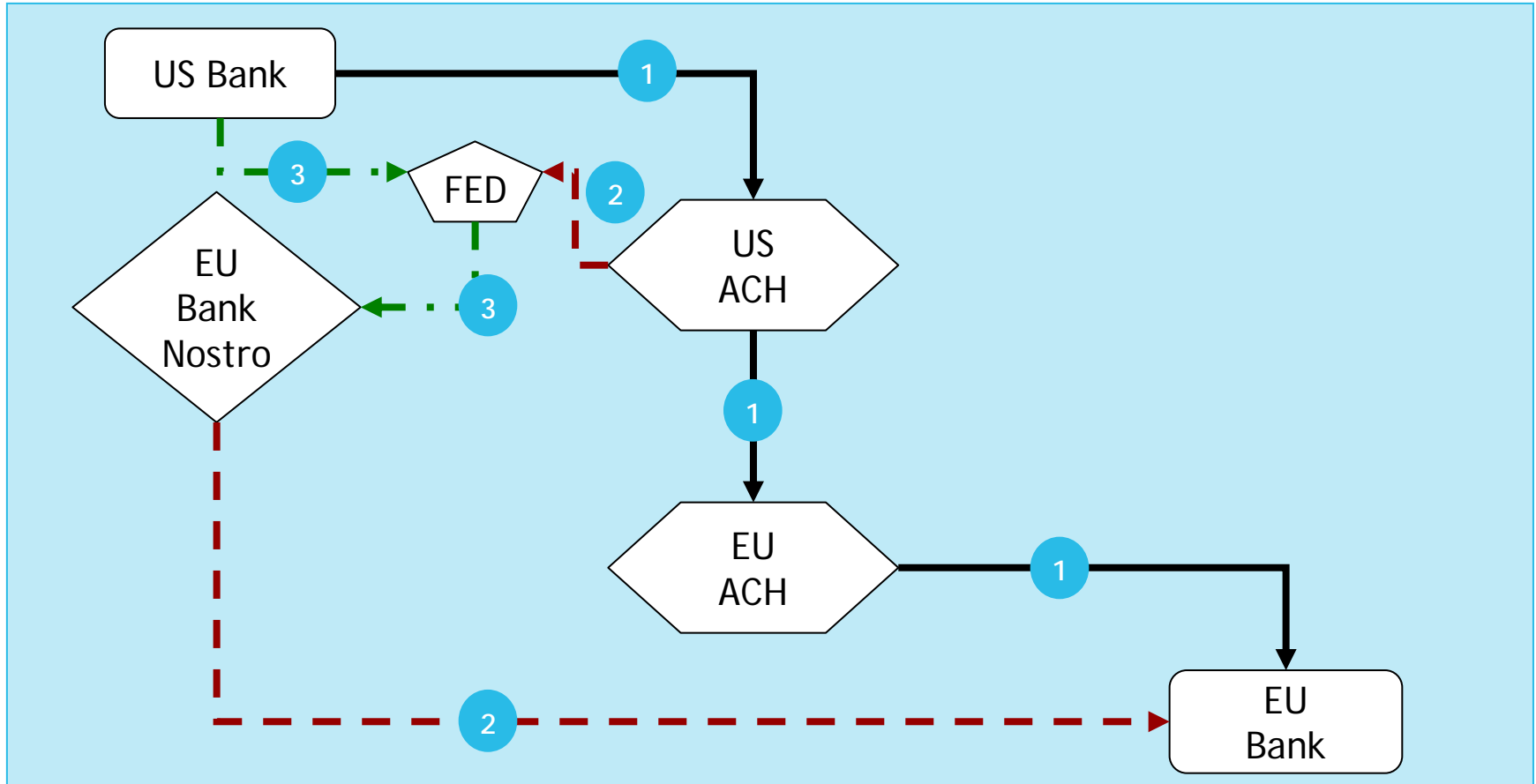
EUR from the US to Europe through ACHs



- **Transaction Flow :** Black
- **Settlement Instructions & Advices:** Red
- **Settlement Flow:** Green

USD from the US to Europe through ACHs

– EU Bank executes the FX



- **Transaction Flow** : Black
- **Settlement Instructions & Advices**: Red
- **Settlement Flow**: Green

Regulatory Compliance Work Group Objectives



- Evaluate regulatory compliance, including
 - AML/Patriot Act considerations
 - Banks/system regulatory requirements
 - Behavior monitoring
- Evaluate constraints on participation
- Comply with competition laws and evaluate impact
- Consultation with actual users/stakeholders



Regulatory Compliance—Phase I Deliverable



- Developed a list of relevant legislation and regulations from Europe and North America that apply to payment transactions in these areas and their relevance in the context of the IPF project



Regulatory Compliance— Phase I Deliverable



- The work group did not identify any regulatory barriers to proceeding with the IPF development



IPF—Phase II Next Steps – Membership Recruitment and Funding

- Membership recruitment
 - Minimum requirements – 25 large global banks and CSMs from geographically disburse major markets.
- Funding – is based on a sliding scale and will depend on the number of Phase II participants, but will not exceed \$20,000.
- Letter of Intent – will be requested from each organization that wishes to participate in the project.





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