

## BUSINESS JUSTIFICATION

### FOR THE DEVELOPMENT OF NEW ISO 20022 FINANCIAL REPOSITORY ITEMS

#### A. Name of the request:

Authorities Financial Investigation.

#### B. Submitting organisation(s):

Federation of Finnish Financial Services (acronym: FFI)

On behalf of

- The following banks having authorities request management activities in Finland, e.g. Aktia Pankki; Nordea Pankki; OP-Pohjola-ryhmä; Sampo Pankki and Tapiola Pankki
- Finnish Authorities - Police, Customs, Tax authorities, Enforcement~~Distraint~~ authorities.

#### C. Scope of the new development:

Authorities (police, customs, tax authorities, enforcement~~distraint~~ authorities) have a legal right to request account and other banking and financial instrument information from financial institutions to carry out their duties. Requested information can relate to accounts, their signatories and beneficiaries and co-owners as well as movements plus positions on these accounts. Additionally, this information can pertain to loans and guarantees.

Requests are underpinned by specific legal texts, each one determining a specific scope of response by the financial institutions. A concrete example is provided below for illustrative purposes.

None of the existing ISO 20022 business areas seems to be appropriate for any of the three flows covered by this business justification. As such, we propose the creation of a new business area, for example “auth”. At first glance, we think that we will need to create 3 new messages.

Business Process 1:

Authority **requests** Financial Institution to provide information on a confidential basis with an **Information Request Opening** message.

If multiple pieces or types of information are requested, each would have a specific definition and reference within the Information Request Opening message.



Business Process 2:

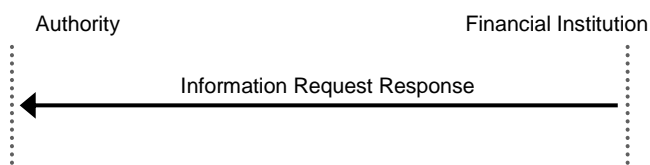
Financial Institution **responds** to the Information Request Opening. This **Information Request Response** message:

- *must* provide the Status of the Request to the Authority, and
- *may* provide all or a part of the business information requested by the Authority

An example case where the requested business information itself is *not* included would be a response message containing a status such as “un-processable”. This could happen if the request previously sent in by the Authority referred to an account which does not exist at – or an account owner which has never been a client of – the Financial Institution.

The full list of status codes will be defined in the modeling phase of this proposed message development.

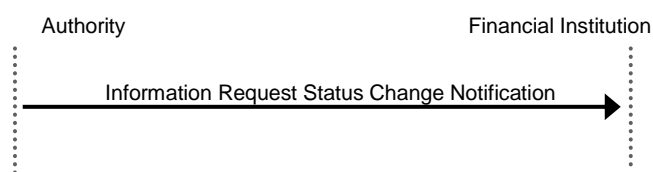
Similarly, the proposed modeling approach would be for the Information Request Response message to include one or many response component for each piece of requested information that is being provided to the Authority, using the same reference as the one used in the Information Request Opening. The current thinking is that two of the possible types of response components would be instances of the ISO 20022 acmt.014 and camt.052 message types.



### Business Process 3:

Authority **notifies** the Financial Institution of the **Change of Status** of the confidential Information Request. This **Information Request Status Change Notification** message allows the Authority to:

- inform the Financial Institution that the process of collection of information has changed confidentiality status – i.e. that it must now or must not longer to be kept secret from the client(s)/beneficiaries/signatories under investigation
- provide the Financial Institution with other status changes – again, the full list of status codes will be defined in the modeling phase of this proposed message development.



*Example of a Customs request to a bank:*

The Customs authority makes an inquiry about person A. They ask for the account information and the transactions from the past 2 years on these accounts. Also the information about the participants of these accounts is needed.

The financial authority receives and processes the inquiry. The answer record is made available for the authority.

The power to obtain the above mentioned information from the bank is stated in Customs Act 28§. This CA28§ must be mentioned in the request since in general Customs can request banking information also for administrative procedures using Customs Act 18§. However, with CA18§ the right to obtain information is more limited thus the bank needs to know which is the legal basis for the request in order to know what information they are entitled to give in their response.

Furthermore, since the investigation is ongoing, Customs gives an order to the bank that it is not allowed to inform to the company or persons in question about the request as this could endanger the investigation.

The FFI proposes that the Payments Standards Evaluation Group be assigned to review this message set.

#### **D. Purpose of the new development:**

Current estimates point to 200,000-300,000 Authority requests handled annually in manual process on paper, in Finland alone. The format and content varies by each authority and each bank, as there is no common standard for authority requests.

This leads to labour intensive procedures, time consuming delays in replies and almost impossible archiving mechanisms concerning these requests. Additionally financial institutions having activities in a number of countries are facing requests which are different in each country causing multiple investments for them. The request and response formats may differ within a country from bank to bank, as well.

Handling of the requests in financial institutions and the responses in authorities are extremely labour-intensive. For the sake of efficiency, costs and audit trail, the most common requests and responses should be produced and delivered electronically. That can only be achieved by standardising the requests and responses.

A suitable standardised message set does not exist yet because of the specific requirements related to authority requests which differ from customer to bank or bank to bank messages.

In addition the automation of this process will help the authorities in fighting crime. When the inquiry process is made lighter and faster it will bring the necessary data for the authorities in a more effective way.

The current Finnish Government has stated clear measures to fight against “grey economy”. Details of actions have been documented in the Government Programme called “An open fair and confident Finland”. Discussions have started amongst all stakeholders for actions to assist.

FFI has made an analysis with the Authorities and Financial Institutions of the current manual process and the benefits of the proposed solution.

At each Financial Institution, (selected ones were surveyed) the current manual process requires between 2 and 10 persons Full Time Employment annually depending on the Financial Institution and the number of requests to be processed and the number is increasing. Fight against crime is slow process as responses are created manually. Finally proof of these requests needs to be verified in a number of ways until replies may be submitted. This creates unnecessary delays as beneficiaries of these actions often are physical individuals and delays will cause economical consequences for them.

The following extract from the Finnish Government Programme provides additional context; key figures from it are mapped in the community of users and benefits table in the next section (E).

*“Economic crime and the shadow economy are a source of major losses to society. The shadow economy has become internationalised and in Finland its volume has increased, especially in labour-intensive sectors. Organised and serious economic crime has also increased to an alarming extent.*

*Combating the shadow economy is one of the Government’s priority projects. The Government will continue to implement the fifth national programme for economic crime prevention and immediately start preparations for the launch of a sixth action plan.*

*Combating the shadow economy requires broad-based cooperation. The Government will appoint a cross-sectoral ministerial working group. Adequate resources will be allocated to implement the programme. The action plan will be presented to Parliament by the end of 2011 and put into effect without delay. A major information campaign against the shadow economy will be launched during the government's term in office.*

*Conservative estimates suggest that the action plan could annually generate EUR 300–400 million in additional tax revenue and social security contributions and in recovered crime proceeds. The numerous legislative projects adopted in this programme and reinforced controls provide a credible basis for these projections of increased revenue. The aim is supported by the Government's 2010–2011 programme for combating economic crime and the shadow economy, which is estimated to reduce losses in central government tax and social security revenue by hundreds of millions of euros a year."*

#### **E. Community of users and benefits:**

The benefits of creating such messages will accrue to both the requesting organisations (Authorities listed in section B) and those that have to fulfil the requests by providing said financial information (financial institutions).

##### 1. The benefits are as follows:

	<u>Authority</u>	<u>Provider of Financial Information</u>
<b>STP</b>	Details of the authority's request can be directly input from a system/application to ISO 20022 messages without manual intervention after the relevant details are input once, at the source of the investigation	Details of the authority's request can be directly processed from the request message into the already existing banking application. Estimates range between 2 and 10 FTE (and growing) per financial institution are currently used in the manual processing of responding to Authority requests. The benefit of this development is to significantly lighten the administrative load on these resources so as to harness their expertise in the collection and analysis of the information required by the Authorities.
<b>Increased speed of execution</b>	Electronic processing of the request allows for a faster start of the investigation itself, which is of the essence to Authorities. As a part of the Finnish Authorities' Action Plan, higher efficiency in providing such Financial Information is slated to increase the recoverable crime proceeds by 300-400 M Euros per year. A large part of this increase in efficiency will come from not having to manually input or analyse incoming responses from financial	Electronic processing of the request allows for a faster start and end of the investigation itself, which allows the financial institution to spend less resource on this matter and deploy more resources to its core business.

	<u>Authority</u>	<u>Provider of Financial Information</u>
	institutions but rather having the information available directly so as to be able to apply business intelligence (e.g. cross-referencing with other police/tax/customs databases) directly to a therefore larger amount of accounts and transactions as this will be electronically available.	
<b>Electronic</b>	The benefits of electronic versus paper processing are clear; an additional benefit is that having the request in electronic format avoids the need to check signatures manually	The benefits of electronic versus paper processing are clear; an additional benefit is that having the request in electronic format avoids the need to check signatures manually
<b>Audit Trail</b>	At all times, the Authority can know the status of the investigation and of the questions within the request without need to prompt the Financial Institution for information	At all times, the financial institution can inform the Authority of a change in the status of its processing of a request without requiring manual intervention

## 2. Adoption scenario:

The FFI expects these messages to be available for user testing in Q2 2012 and to be used by Finnish market participants by the end of 2012.

Financial Institutions and Authorities need to have message schemas ready by end of Q2 2012 so that they can be implemented in their software solutions. The market has committed to start using the new automated authorities request processing solution at the latest by the end 2013, so the ISO 20022 message development process has to be completed by approx. Q2 2012. End to end testing, while not formally scheduled yet, is expected to take place towards the end of 2012.

## 3. Volumes:

Roughly estimated yearly volume for Finland in year one of full adoption:  
250,000 cases times 3 messages per case = 750,000 messages

## 4. Sponsors and adopters:

The Authorities and Financial Institutions listed under section B all sponsor this business justification.

## F. Timing and development:

- To ensure adoption by the Finnish Authorities, the messages should be available by the end of Q2 2012 latest. If this deadline is missed, Authorities may look for alternative, proprietary mechanisms which will prevent the community from enjoying many of the benefits of the ISO 20022 approach.  
Expected submission of ISO 20022 business and message models to ISO 20022 RA by end of February 2012

- FFI will involve representatives of the Finnish Authorities and financial institutions and we have contacted and look to involve similar representatives of Denmark, Sweden, Norway, and Austria.
- We are not aware of any similar standards initiatives

#### **G. Commitments of the submitting organisation:**

FFI confirms that it 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) and Message Flow Diagram (sequence diagram), 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.

FFI 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 their submission to the RA.

FFI confirms that it intends to organise a user testing phase at a date to be determined between mid-2012 and mid-2013.

FFI confirms that it is committed to initiate and/or participate in the future message maintenance.

FFI confirms its 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:

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

### Comments received from the US

- How would this proposal intersect with access by authorities to information regarding OTC derivatives at Trade Repositories? This is an active area of policy development.

#### Answer from FFI:

*Our proposal is another method of collecting information for Authorities when central repositories are not available or not possible. In our case, building repositories with all transactions performed by all individuals with their banks seems unrealistic and this kind of information is in general too confidential and 'private' to be made available on central repositories. The scope of the underlying investigation – i.e. possible illegal activity – is fundamentally different from that of information gathered on OTC activities.*

- What payment instruments are covered? It appears to be a quite broad proposal. Does it apply to all payment instruments and account balances and transactions?

#### Answer from FFI:

*Yes, depending on the specific investigation to be performed by the authority and the power invoked by this authority, all types of instruments, transactions and account balances can be covered.*

- Clearly there must be a way to prove the authority of the requestor as well to verify the identity of the requestor either as part of the request or using "out-of-band" techniques, etc.

#### Answer from FFI:

*Indeed, there is a need to ensure that the request message is issued by an authorized requestor, but we understand that such security and authentication features are out of scope of ISO 20022.*

- How does this message interact with the court authorities and legal documents that must be in place prior to any request being made?

#### Answer from FFI:

*The proposed message set doesn't cover the preliminary arrangement and legal framework organisation that must be set prior to the request. However, it allows the authority to refer to its specific legal right or document and it allows the financial institution to refuse to answer if the invoked legal document is not adequate.*



- Authorities have a legal right to request account and other banking and financial instrument information from financial institutions to carry out their duties. The definition of “Authorities” needs to be clear. For example, we have a specific user with a need to request this information for the immigration section of host country governments. In the U.S., in particular, "authorities" may include host universities which must verify sufficient funds of prospective students prior to issuing a student visa application (Form I-20).

Answer from FFI:

*The case of US host universities verifying the financial means of prospective students is indeed another good use case for the message set we are proposing. In our proposal, the 'Authorities' include whichever body that has a legal right to perform an investigation at a financial institution about a specific legal entity or individual.*

- Requests are underpinned by specific legal texts. In the U.S., the Immigration and Customs Enforcement arm of the U.S. Dept of Homeland Security coordinates the Student and Exchange Visitor Information System (SEVIS):  
[http://www.ice.gov/sevis/becoming\\_nonimmigrant\\_student\\_52007.htm#\\_Toc129683768](http://www.ice.gov/sevis/becoming_nonimmigrant_student_52007.htm#_Toc129683768)

Answer from FFI:

*This is similar to the Customs Acts in Finland and can be handled similarly by the proposed message set.*

- The handling of the requests in financial institutions and the responses to authorities are extremely labor-intensive. For the sake of efficiency, costs and audit trail, the most common requests and responses should be produced and delivered electronically. That can only be achieved by standardizing the requests and responses.

Answer from FFI:

*That is indeed the purpose of our proposal.*

- The current Finnish Government has stated clear measures to fight against the "grey economy"
- In both the FFI and the international student scenarios, anticipated annual volume ranges in the hundreds of thousands. The United Nations estimates that by 2025, approximately eight million students will be educated transnationally each year. A new ISO 20022 message class will serve as more comprehensive solution for improving the efficiency and integrity of international student funds verification.
- The above example, while specific to education, illustrates that there is a need and market for this type of message.

Answer from FFI:

*We welcome the support of the US for our proposal and thank them for this additional 'education' use case.*

## Comments received from Japan

Thank you very much for giving us an opportunity to comment on the new Business Justification Authorities Financial Investigation.

The Japan's TC68 mirror committee members would like to express our interest in the BJ because we also share similar reporting burden.

### *Answer from FFI:*

#### *The FFI welcomes the support of Japan*

However, we wonder how this proposal can be implemented. We wonder how we can ask the authorities to standardize their request formats, and how likely they would agree with our proposal. We understand that the authorities have their own ways of doing their businesses, and it won't be easy to standardize.

We appreciate very much if you can share your idea with us how this can be done, and how long do you think it would take to be developed and implemented.

### *Answer from FFI:*

*We agree that there is some promotion to be done at the authorities. The 'win-win' business case described in section E can be used: if the authorities standardise their requests and can process automatically the responses, they will also eliminate their processing burden and save resources accordingly.*

## Comments received from The Netherlands

- a) It seems to be a response to local legal requirements - making it more difficult to standardise across countries. The Finnish requirements offer the opportunity to introduce ISO20022 based messaging for this purpose right now, but it may be assumed that it will take a long time for critical mass to be achieved for such messaging at a global level. It is suggested to elaborate on this in the BJ.

### *Answer from FFI:*

*We know that other countries such as Denmark, Sweden, Norway, and Austria have similar needs and the interest expressed by the US and Japan in the above comments is encouraging. In particular, the 'education' use case presented in the above US comments widens the geographical application and the critical mass potential for the proposed message set.*

- b) The BJ seems to make it necessary to be more precise on the details of the scope of the ISO 20022 platform

### *Answer from FFI:*

*We are not sure we understand this comment. It is understood that the FFI is not the organisation supposed to detail the scope of the ISO 20022 platform.*

- c) It is understood that the intended use of the messages is in the Business-to-Government area i.e. the use of communication channels and networks may be introduced that is different from the ones used so far. In view of actual developments, e.g. regarding LEI

and e-ID / e-Authentication, it is suggested to elaborate the Authentication mechanism envisaged - in order to make it possible to determine the existence of a potential impact on ISO 20022 or the messages developed using it.

*Answer from FFI:*

*The proposal is focusing on the business content of the messages and will take current developments into account when relevant to this business content. Our understanding is that ISO 20022 is network agnostic and that security, e-ID and e-authentication mechanisms are also dealt with separately with the support of ISO TC68/SC2.*