Japanese Bankers Association

Japanese Banks' Payment Clearing Network

# Update Regarding Major Enhancements to Payment Clearing Infrastructure Functions

At board of directors meetings held today, the Japanese Bankers Association (Chairman: Takeshi Kunibe, President & CEO, Sumitomo Mitsui Banking Corporation) and the Japanese Banks' Payment Clearing Network (Board Chairman: Shin Takagi) resolved to make major enhancements to Japan's payment clearing infrastructure functions. Specifically, they have decided to establish a finance and IT network system, as outlined below, for the purpose of switching the message format for inter-company transfers in Japan to XML<sup>1</sup>, which is the international standard for financial transactions, and move forward with efforts to implement financial EDI<sup>2</sup>, which will enable commercial information to be attached to domestic transfer messages.

# 1. Major Enhancements to Payment Clearing Infrastructure Functions

### 1-1. Provision of Platform Compatible with XML Messages

A new finance and IT network system ("the new system") will be developed as a platform in order to promptly switch the message format used for inter-company transfers in Japan to an XML format and to move forward with efforts to implement financial EDI.

#### Transfer instruction Transfer instruction (fixed-length data) (fixed-length data) Sending Receiving Zengin financial financial Addition of institution System institution EDI 6 1 information information receipt 3 Transfer **Transferred** 2 5 6 payment instruction (XML) (XML) Bank transfer information and Receiving Payment 'key information' company company (fixed-length data) Additional EDI information set based on 'key information' Storage of additional EDI information' generation **New System**

[Diagram of Finance and IT Network System (New System)]

- 1' and 6' are cases where individual financial institutions choose to upgrade their own systems so that XML messages can be received directly from companies (not via the new system).
- Since the new system is a platform, individual financial institutions can adapt it to handle online banking service requests, etc.

eXtensible Markup Language: a markup language which enables flexible setting and modification of text length, etc.

<sup>2</sup> Electronic Data Interchange: the use of financial EDI is expected to improve efficiency (e.g., clearing of accounts receivable between companies).

#### 1-2. Purpose of Developing a New System

The purpose of the new system is to make it possible to receive domestic transfer instructions from companies via XML messages and attach commercial information to inter-company transfer messages, with the aim of improving the efficiency and productivity of payment clearing operations (automatic clearance of accounts receivable, etc.) and, from the perspective of financial institutions, providing new payment clearing services and promoting innovation.

#### 1-3. Service Provision Start Time

Based on the governmental report of the Financial System Council's Working Group on Payment and Transaction Banking "Strategies for Reforming the Japanese Payment Systems" published in December 2015 and the "Japan Revitalization Strategy 2016: Towards the Fourth Industrial Revolution," we recognize the need to implement service provision as rapidly as possible, and therefore aim to start provision during 2018.<sup>3</sup> However, proper consideration must also be given to safety and reliability, which are required of any infrastructure offered by the banking industry.

Once the new system is operational, participation will be at the discretion of individual financial institutions. However, we will pursue efforts to encourage all financial institutions to participate from an early stage, since the system will increase user convenience by enabling the use of the enhanced financial EDI through XML messaging in a wide range of institutions.

## 2. Future Handling

## 2-1. Management Structure and Project Development of the New System

The new system will be managed by the Japanese Banks' Payment Clearing Network (Zengin-Net). The project will be launched at its office with further consideration given to specific actions.

In conjunction with this, the New XML System Working Group set up at Zengin-Net will manage the project's progress.

## 2-2. Initiatives to Promote the Use of Financial EDI

The JBA will pursue initiatives aimed at promoting the use of financial EDI in the banking industry in collaboration with relevant government organizations and the business sector.

At the XML Messaging Transition Working Group, the JBA, as the executive body of the Group, will collaborate with the business sector and the Ministry of Economy, Trade and Industry (METI) Small and Medium Enterprise Agency, etc., on efforts to raise awareness ahead of the new system becoming operational. In addition, it will collaborate on initiatives such as the testing of a common ordering system for SMEs to be implemented on behalf of the Small and Medium Enterprise Agency<sup>4</sup> and work closely with the public and private sectors to firmly establish the new system as an IT platform that enables seamless coordination of commercial transaction and payment clearing information in Japan. At the same time, the banking and business sectors will continue collaborating to facilitate the enhancement of corporate financial and payment clearing processes through the implementation of IT.

<sup>3</sup> The Financial System Council and the Japan Revitalization Strategy recommend switching the format for whole domestic inter-company transfer instructions to XML by 2020.

<sup>4</sup> To be implemented as an IT infrastructure development support project (research project on next-generation inter-company data) to improve management of projects supporting future regional investment (Second Fiscal Supplementary Budget for FY2016).