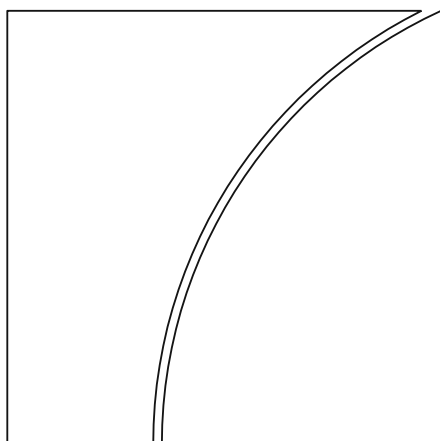


# Committee on Payments and Market Infrastructures



## Enhancing cross-border payments: building blocks of a global roadmap

### **Stage 2 report to the G20**

July 2020



**BANK FOR INTERNATIONAL SETTLEMENTS**

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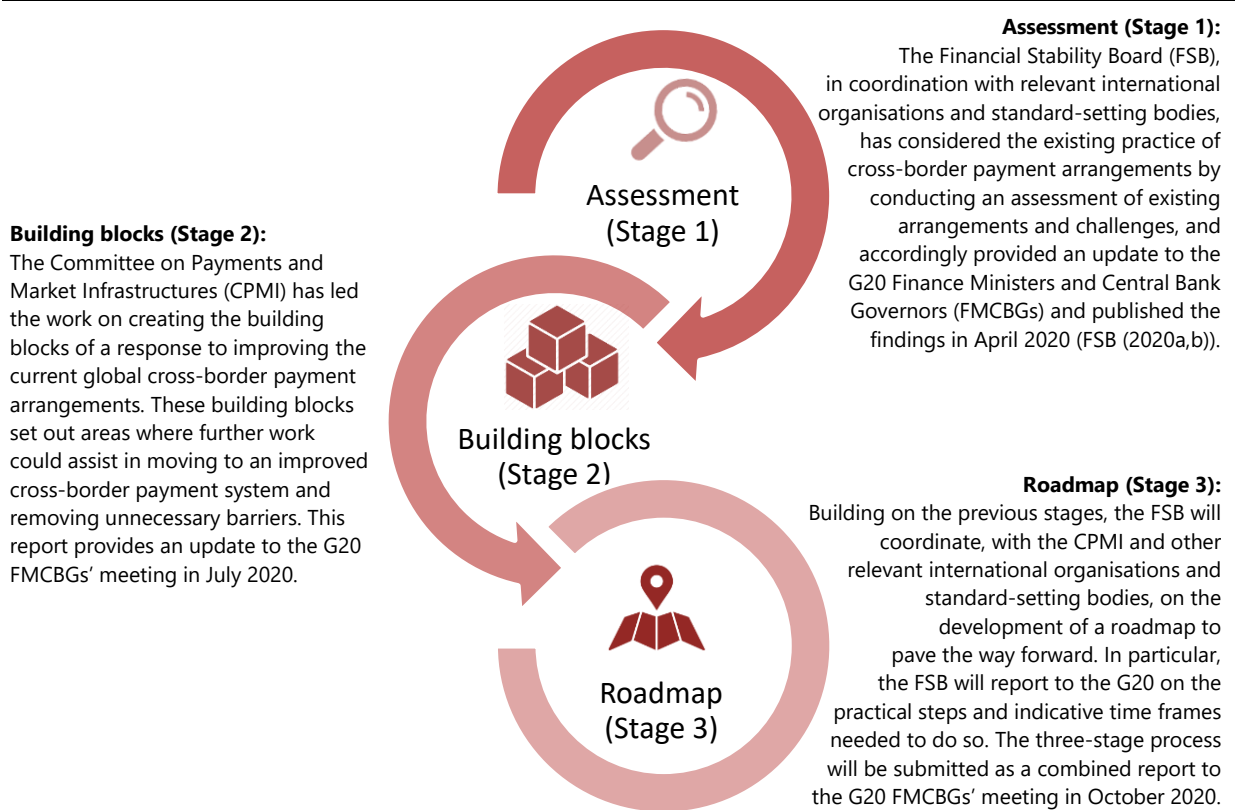
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**The G20 has made enhancing cross-border payments a priority during the 2020 Saudi Arabian Presidency.** Faster, cheaper, more transparent and more inclusive cross-border payment services would deliver widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development and financial inclusion. While the economic ramifications of the Covid-19 pandemic are undoubtedly also affecting the payments landscape in the short term, it is important to maintain momentum to identify and take forward structural improvements in cross-border payment arrangements for the post-pandemic global economy.

**This report, and the detailed technical background report it accompanies (CPMI (2020)), represent the output of Stage 2 of the three-stage process to develop a global roadmap for enhancing cross-border payments (Figure 1).** This process has identified and developed 19 “building blocks” to enhance cross-border payments. As part of the work, a set of considerations have been identified that support the work in Stage 3 to develop a roadmap to pave the way forward to enhance cross-border payments.

The three stages of developing the roadmap

Figure 1



Source: CPMI.

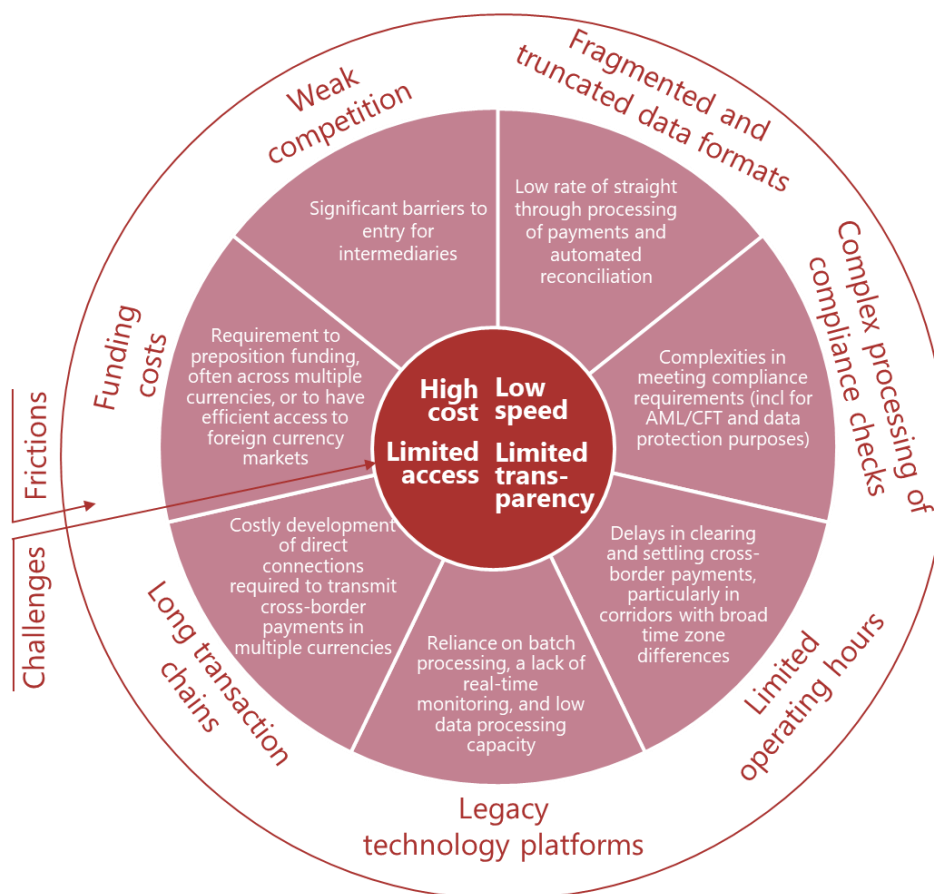
**Cross-border payments are by definition more complex than purely domestic ones.** They involve more, and in some cases multiple, players, time zones, jurisdictions and regulations. Tackling the long-standing frictions within them has been on the agenda for many years, as it is a multidimensional problem requiring strong collaboration. The fact that it is a G20 priority has provided important global momentum.

**The Stage 1 assessment report, which the Financial Stability Board (FSB) presented to the G20 in April 2020, identified seven underlying frictions that together contribute to the challenges faced by cross-border payments with regard to costs, speed, access and transparency (Figure 2).** In December 2019, the Committee on Payments and Market Infrastructures (CPMI) established a Task Force dedicated to working on cross-border payments (“Task Force”; see Annex 2) and contributed, via members

of that Task Force, to the Stage 1 assessment report. During industry outreach,<sup>1</sup> market participants confirmed the challenges and frictions identified and endorsed the assessment that the same types of frictions impact cross-border wholesale and retail payments (including remittances) although the extent of that impact may vary. Tackling those frictions can enhance cross-border payments for all end users globally.

Challenges and frictions in cross-border payments

Figure 2



Source: CPMI based on FSB (2020b).

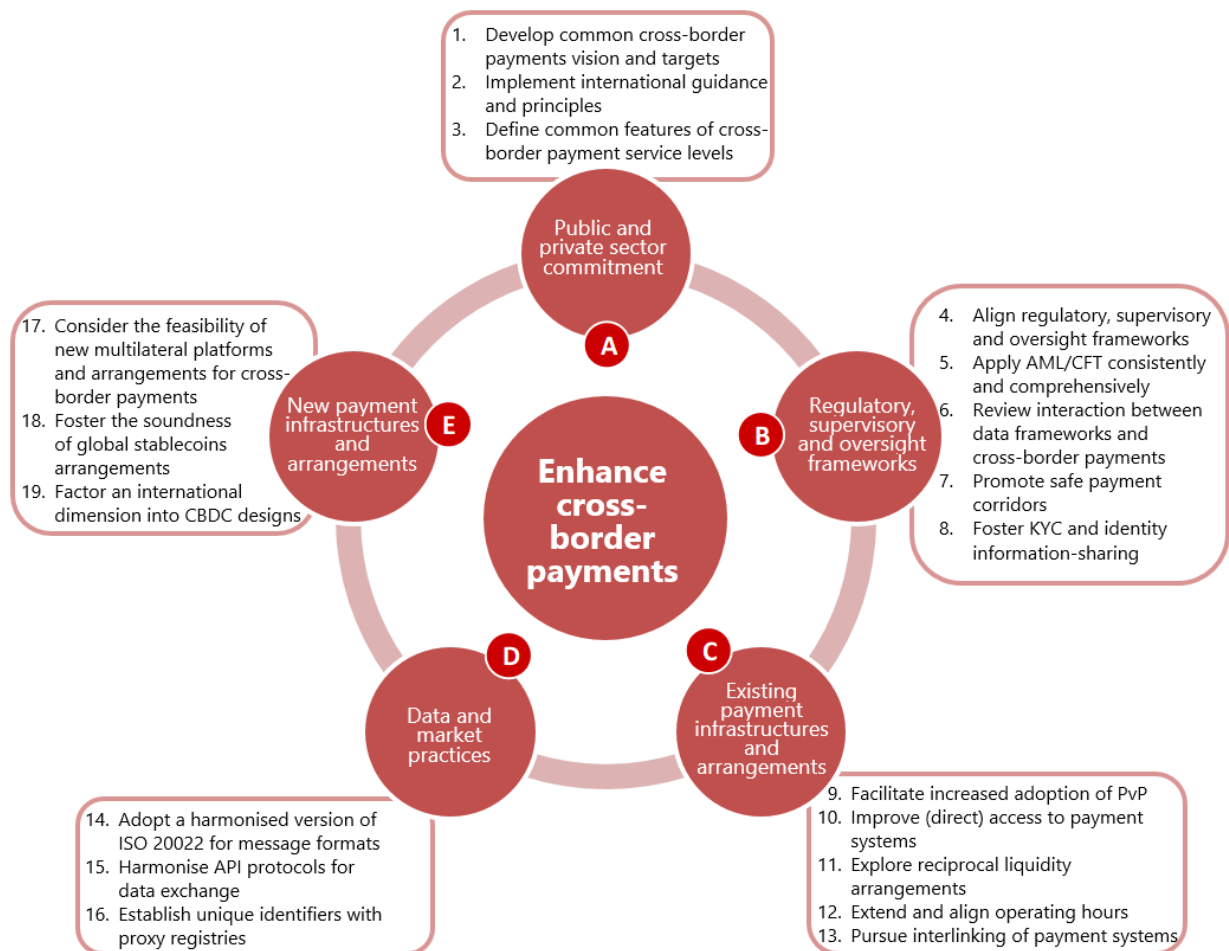
**This Stage 2 policy report identifies a set of building blocks where further joint public and private sector work could enhance cross-border payments, thereby supporting a global approach to addressing the underlying frictions identified in Stage 1.** The Task Force took a holistic approach and covered both retail and wholesale payments. It undertook a qualitative analysis for each building block, exploring: (i) its expected impact on the seven frictions; (ii) its interdependencies with other building blocks; (iii) the complexity and potential time of its delivery; and (iv) the potential risks that advancing a building block could create for the smooth functioning of payment systems, monetary stability and financial stability.

<sup>1</sup> The Task Force reached out to almost 40 market participants and other stakeholders to obtain their views on issues in cross-border payments and possible actions/solutions to improve cross-border payments. About half of the respondents were banks or banking associations, and the non-bank sector and infrastructure providers each represented about a quarter of the respondents.

**While each of the first 16 out of the 19 building blocks individually has the ability to bring notable benefits to cross-border payments, due to their interdependencies the most significant enhancements are likely to arise if over time they are all advanced and implemented in a coordinated manner.** Each of the building blocks focuses on a specific area where carefully planned and implemented changes would help to mitigate one or more of the seven cross-border payment frictions. Further analysis and industry input will be needed to determine, in more detail, the most effective ways to advance the building blocks, taking into account potential pros and cons, expected benefits and costs, and particular regional differences. Building consensus among stakeholders, including those who will ultimately advance changes in their respective jurisdictions, will be important going forward. The 19 building blocks are arranged into five focus areas, four of which (focus areas A to D) seek to enhance the existing payments ecosystem, while focus area E is more exploratory and covers emerging payment infrastructures and arrangements (Figure 3). Work on some of the building blocks is already under way in a number of jurisdictions, while with others it will take more time to assess implementation.

Overview of the focus areas and associated building blocks

Figure 3



Source: CPML.

**Focus area A: Commit to a joint public and private sector vision to enhance cross-border payments.** Much of the complexity in addressing frictions in cross-border payments arises from the many stakeholders from the public and private sector. The building blocks within this focus area are intended to act as a commitment mechanism to drive meaningful, coordinated change at the global level over a sustained period of time. A common vision and agreed targets can encourage a wide range of policymakers and market participants to work towards enhancing cross-border payments. Implementing international guidance and principles relevant for cross-border payments and defining common features of cross-border payment service levels will require sustained public and private sector commitment. This

focus area is targeted, in particular, towards frictions where complex political, regulatory and (to a lesser extent) operational issues are prevalent.

**Focus area B: Coordinate on regulatory, supervisory and oversight frameworks.** The building blocks in this focus area are intended to mitigate key challenges arising from the multijurisdictional nature of cross-border payments, by advancing consistent international rules and standards without compromising individual jurisdictional discretion or lowering standards. Much of the focus for removing frictions in cross-border payments has typically been on technology and operations. However, it is important to note that divergent regulation, legislation, supervision and oversight frameworks across jurisdictions can limit the benefits that may be derived from such initiatives. Similarly, it is important to identify the gaps in these frameworks, such as the supervisory standards of non-bank remittance firms. In advancing consistent, relevant international rules and standards and supporting their local transposition, the building blocks in this focus area can target frictions around complex compliance requirements and weak competition.

**Focus area C: Improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments market.** The building blocks within this focus area centre on technical and operational improvements to existing domestic and international payment infrastructures that cross-border payments depend upon. Addressing these enables frictions resulting from different operating hours, long transaction chains, high funding costs, access regimes and weak competition to be tackled. The building blocks do not require every system to be the same, but target specific areas where benefits can arise from carefully implemented and coordinated changes. This could include enhancing functionalities of existing systems, aligning processes and operating hours across systems, introducing reciprocal liquidity arrangements, and interlinking existing payment systems. Such changes are likely to require the support of the domestic and international regulatory and legislative changes proposed in focus areas A and B.

**Focus area D: Increase data quality and straight through processing by enhancing data and market practices.** The building blocks in this focus area are aimed at maximising the positive impact of the technical, operational and regulatory process changes being advanced in focus areas A to C. Poor data quality and limited standardisation of data exchange make cross-border payments more complex to process, in turn affecting their speed, price and transparency. Promoting the adoption of common message formats, including conversion and mapping from legacy formats and the use of Legal Entity Identifiers and common protocols for data exchange, directly mitigates the friction around fragmented and truncated data. It also has the potential to improve compliance processes and address data handling issues.

**Focus area E: Explore the potential role of new payment infrastructures and arrangements.** Recent advances in technology and innovation have created the potential for new payment infrastructures and arrangements that could be applied to cross-border payments. So far, these have not been implemented broadly; some are still in their design phase and others remain theoretical. Hence their potential to enhance cross-border payments cannot yet be fully assessed. The building blocks in this focus area are aimed at exploring the potential that new multilateral cross-border payment platforms and arrangements, central bank digital currencies (CBDCs) and so called global “stablecoins” could offer for enhancing cross-border payments. This focus area is more exploratory than the others and is likely to be on a longer trajectory. The potential benefit of the building blocks in this focus area will be enhanced by progressing focus areas A to D, which, in addition to enhancing the existing payments ecosystem, will remove barriers to the emergence of new cross-border payment infrastructures and arrangements.

**In order to assess whether the building blocks within each focus area were a sensible starting point for the enhancement of cross-border payments, the Task Force sought to understand, at a high level, the tasks that would need to be addressed in each building block.** This not only identified some of the key individual tasks aimed at promoting outcomes that would address one or more frictions, but also gave an early indication of the likely complexities in advancing and implementing the building blocks. In particular, this initial work identified a high-level set of tasks that could help inform

public and private sector efforts to advance the building blocks as they are taken forward to the next stage. The actual sequencing, time and magnitude of effort necessary should be determined as part of the Stage 3 roadmap, and may depend on factors unique to a particular jurisdiction, region or currency corridor. As part of this, the Task Force also identified some of the key public authorities and industry groups that would be well positioned to collaborate in carrying out these tasks and whose involvement would be beneficial.

The remainder of this report details a set of considerations that could support the work being done in Stage 3 on using these building blocks to create a global roadmap to enhance cross-border payments.

**Extensive engagement with all relevant private and public sector stakeholders will be needed to make progress in enhancing cross-border payments.** While the focus areas and individual building blocks have been informed by initial stakeholder outreach, further consultation and outreach are required as they move to implementation. The CPMI will continue stakeholder engagement, including via the Task Force. This could, for example, help identify the steps that would be necessary, and potential obstacles to overcome, in advancing and implementing the building blocks. As part of the roadmap, it will be important that other expert bodies also undertake outreach in their specialist areas. Domestically, jurisdictions may wish to conduct their own consultation and engagement according to their individual processes and in line with their priorities. The roadmap could frame the way forward at the global level, while allowing sufficient flexibility to be factored in for jurisdictions with different priorities and whose financial systems are at different levels of development.

**The analysis of the Task Force has identified important interdependencies between building blocks that will be assessed further to inform the Stage 3 roadmap and beyond.** These interdependencies are a key reason why material progress in addressing the challenges in cross-border payments can only be achieved through a wide-ranging and coordinated plan of action engaging all stakeholders and addressing all major frictions. Interdependencies manifest themselves in two ways: (i) by influencing the most effective order for advancing and implementing the building blocks; and (ii) by making the level of benefits a building block can deliver dependent on the successful advancement of other building blocks. The technical background report describes those interdependencies in more detail, which can also help identify specific building blocks that are strategically important for a number of others (CPMI (2020)).

**From some building blocks early incremental benefits seem feasible, while the benefits from other building blocks will be realised in the longer term.** The building blocks have, where possible, been designed to build upon existing initiatives in cross-border payments, and hence contain a number of tasks that are already in train in some countries or international bodies, meaning that early realisation of some benefits can be expected. In particular, where action is building on, or supported by, existing international initiatives or market practices, it should be encouraged in the near term. Operational actions to deliver interoperability require time, and could first be encouraged at a regional level before seeking wider application. The scale of the cross-border payments market is such that incremental improvements can have a material economic impact, which, considering the time it is expected to take for benefits to be realised from each building block, would enhance the roadmap.

**A comprehensive set of delivery milestones involving both the public and the private sector, together with monitoring, is essential to ensure success.** Measuring progress against targets can help coordinate progress and sustain buy-in across the wide-ranging change advocated in this report. The Stage 1 report noted that comprehensive and comparable data on cross-border payments are not currently available. Leveraging and potentially complementing current initiatives on data collection should be further considered in Stage 3 to help monitor progress. In that process, the transformative impact of these enhancements can drive meaningful change for all users of cross-border payments – reducing costs, reducing the time taken for a transaction, and increasing the transparency of, and access to, those services.

## Annex 1: List of building blocks in each focus area

### Focus area A: Public and private sector to commit jointly to enhance cross-border payments

#### 1. Develop common cross-border payments vision and targets

- Developing a common vision and expanding the range of agreed targets beyond remittance costs to include enabling faster, cheaper, more transparent and more inclusive payments for wholesale and retail alike.

#### 2. Implement international guidance and principles

- Ensuring that international guidance and principles lead to the implementation of effective and efficient payment and ICT infrastructures and to the achievement of agreed targets.

#### 3. Define common features of cross-border payment service levels

- International guidance on eg technical standards, settlement finality provisions, rules for the handling of exceptions to drive standardisation and support competition and innovation in payment schemes.

### Focus area B: Coordinate regulatory, supervisory and oversight frameworks

#### 4. Align regulatory, supervisory and oversight frameworks

- Building on the principle of “same business, same risk, same rules”. Consistent jurisdictional approaches will ensure greater clarity for market participants.

#### 5. Apply AML/CFT rules consistently and comprehensively

- Ensuring more effective and robust implementation and application of AML/CFT frameworks while continuing to pursue a risk-based approach.

#### 6. Review interaction between data frameworks and cross-border payments

- Identifying and addressing real or perceived tension between financial regulatory requirements, on the one hand, and restrictions on cross-border data flows and data storage, on the other.

#### 7. Promote safer payment corridors

- Reducing the burden associated with compliance checks and facilitating market entry to determine lower risk corridors and types of cross-border payments via rigorous and effective risk assessments.

#### 8. Foster KYC and identity information-sharing

- Reducing the number of silos within and across jurisdictions to prevent identity duplication, ultimately benefiting both the end user and market participants.



**Focus area C:** Improve existing payment infrastructures and arrangements to support the requirements of the cross-border payments market

**9. Facilitate increased adoption of PvP**

- Reducing settlement risk on the majority of FX transactions to help cross-border payments which rely on them.

**10. Improve (direct) access to payment systems**

- Broadening the range of eligible candidates for settlement accounts by changing access policies, technical standards and supervisory or oversight regimes.

**11. Explore reciprocal liquidity arrangements**

- Analysing the feasibility of bilateral arrangements between large-value payment system operators and central banks to enable collateral posted in one jurisdiction to support liquidity issuance in another.

**12. Extend and align operating hours**

- Adapting operating timetables for critical infrastructures and market participants to enable greater overlap of settlement windows.

**13. Pursue interlinking of payment systems**

- Decreasing the dependency on traditional correspondent banking by establishing links between the payment infrastructures of different countries.

**Focus area D:** Increase data quality and straight through processing by enhancing data and market practices

**14. Adopt harmonised version of ISO 20022 for message formats (including rules for conversion/mapping)**

- Promoting the adoption of common message formats, such as a harmonised version of ISO 20022 and common rules of mapping/converting data between different data formats.

**15. Harmonise API protocols for data exchange**

- Harmonising API protocols for data exchange across payment infrastructures and jurisdictions to enable more efficient payment data and digital identifier exchange in cross-border payments.

**16. Establish unique identifiers with proxy registries**

- Providing a globally standardised approach supporting the global Legal Entity Identifier for legal entities and a similarly standardised identifier for individuals.

**Focus area E:** Explore the potential role of new payment infrastructures and arrangements

**17. Consider the feasibility of new multilateral platforms and arrangements for cross-border payments**

- To complement or substitute traditional correspondent banking links or bilateral interlinking of the payment infrastructures of different countries, new multilateral cross-border payment platforms could address problems inherent in legacy technologies and processes.

**18. Foster the soundness of global stablecoin arrangements**

- Fostering appropriate risk management within global stablecoin arrangements, and sound legal underpinning, as a basis for the use of stablecoins in multiple jurisdictions.

**19. Factor an international dimension into CBDC designs**

- Providing domestic CBDC implementations with the necessary guidance to enable cross-border transactions via access by non-residents and/or interlinking with international infrastructure.

## Annex 2: Composition of the Cross-border Payments Task Force

### Chair

Bank of England Victoria Cleland

### Members

|  |   |
|--|---|
| Reserve Bank of Australia              | Lindsay Boulton<br>Michael Davies (alternate)   |
| National Bank of Belgium               | Michiel Van Acoleyen  |
| Central Bank of Brazil                 | Carlos Eduardo de Andrade Brandt Silva  |
| Bank of Canada                         | Sajjad Jafri  |
| The People's Bank of China             | Changchun Mu<br>Lyu Yuan (alternate)  |
| European Central Bank                  | Holger Neuhaus<br>Patrick Papsdorf (alternate)  |
| Bank of France                         | Nicolas Péligry   |
| Deutsche Bundesbank                    | David Ballaschk   |
| Hong Kong Monetary Authority           | Stanley Chan  |
| Reserve Bank of India                  | Rajani Prasad   |
| Bank of Italy                          | Luca Arciero  |
| Bank of Japan                          | Chihiro Morishima   |
| Bank of Korea                          | Hyung Koo Lee (until March 2020)<br>Myeong Jin Han (since April 2020)   |
| Bank of Mexico                         | Daniel Garrido  |
| Netherlands Bank                       | Frits Clevis (until February 2020)<br>Ellen Naudts (since March 2020)   |
| Central Bank of the Russian Federation | Mikhail Myznikov  |
| Saudi Arabian Monetary Authority       | Nawaf Alshalan  |
| Monetary Authority of Singapore        | Nelson Chua   |
| South African Reserve Bank             | Tim Masela  |
| Bank of Spain                          | Carlos Conesa   |
| Sveriges Riksbank                      | Martin W Johansson (until March 2020)<br>Stig Johansson (from April to May 2020)<br>Hanna Armelius (since May 2020) |
| Swiss National Bank                    | Giuseppe D'Alelio (until March 2020)<br>Maurizio Denaro (since April 2020)<br>Raphael Reinke (alternate)            |

|  |                 |
|--|-----------------|
| Central Bank of the Republic of Turkey           | Büşra Ercan     |
| Bank of England                                  | John Jackson*   |
| Board of Governors of the Federal Reserve System | Jennifer Lucier |
| Federal Reserve Bank of New York                 | Hampton Finer   |

### Observers

|  |   |
|--|---|
| Bank for International Settlements     | Marc Hollanders<br>Raphael Auer (alternate)               |
| Basel Committee on Banking Supervision | Joy Wann (until May 2020)<br>Stefan Hohl (from June 2020) |
| Financial Stability Board              | Rupert Thorne<br>Alexandre Stervinou (alternate)          |
| Financial Action Task Force            | Tom Neylan  |
| International Monetary Fund            | Tommaso Mancini Griffoli<br>Marcello Miccoli (alternate)  |
| World Bank Group                       | Harish Natarajan<br>Gynedi Srinivas (alternate)           |

### Secretariat

|  |                                   |
|--|-----------------------------------|
| Committee on Payments and Market Infrastructures | Thomas Lammer*<br>Thomas Nilsson* |
|--|-----------------------------------|

The Task Force's work has also benefited from the contributions and support provided by Tony Richards and Warren Wise (Reserve Bank of Australia); Helvio Carvalho, Lucio Hellery Holanda and Emerson Erik Schmitz (Central Bank of Brazil); Annetta Ho (Bank of Canada); Andreja Birsa and Klaus Löber (European Central Bank); Rohit Das (Reserve Bank of India); Paola Masi (Bank of Italy); Junhong Park (Bank of Korea); Nicholas Chan (Monetary Authority of Singapore); Arif Ismail (South African Reserve Bank); Esther Barruetaña and Justo Arenillas (Bank of Spain); Michaela Costello,\* Ana Lasosa\* and Neil Pearston\* (Bank of England); Aaron A Compton, Mark C Magro, Brendan Malone, David Mills and Kelly M Roberts (Board of Governors of the Federal Reserve System); John R Rutigliano and Ray Fisher (Federal Reserve Bank of New York); and Tara Rice and Takeshi Shirakami (Committee on Payments and Market Infrastructures).

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\* Member of the drafting team.

## Annex 3: Resources

Committee on Payments and Market Infrastructures (2020): *Enhancing cross-border payments: building blocks of a global roadmap. Stage 2 report to the G20 – technical background report*, July.

Financial Stability Board (2020a): *Enhancing Cross-border Payments – Stage 1 assessment report to the G20*, April.

——— (2020b): *Enhancing Cross-border Payments – Stage 1 report to the G20: Technical background report*, April.