Global and EU cross-border payments

1. Taking stock of the G20 Roadmap for enhancing cross border payments: diagnosing the problems, defining the objectives and implementing in a complex and fast moving landscape

A Central Bank official explained that the G20 roadmap is trying to achieve at cross border level the high level of efficiency that has already been achieved at the domestic level. The objectives and timelines have been defined and the key performance indicators (KPIs) and objectives have been set.

A Central Bank official added that the three priority themes of the revised roadmap are interoperability and extension; data exchange and message standards; and progress on legal, regulatory and supervisory frameworks. The roadmap's explicit objectives on cost, speed, access and transparency are a good departure point for enhancing cross-border payments.

1.1 The integration of fast payment systems (FPSs) will drive fast, cheap and secure payments

A Central Bank official stated that the current priority is to finalise the operational details of the G20 roadmap. First, there needs to be a common language. The implementation of ISO 20022 is a key milestone in this regard. One of the major tasks of the G20 roadmap is the interconnection of FPSs. These systems enhance domestic payment efficiency, but this efficiency must extend beyond national borders. The work to achieve this objective has a legal and regulatory component and an operational component, which includes the definition and implementation of application programming interface (API) protocols.

An industry speaker noted the importance of taking stock of the framework that is currently being implemented. The payments sector has been transformed by the adoption of a digital framework, which happened largely in response to consumer expectations. Consumers want to make fast, cheap and secure payments. To do this, they have turned to new technologies. The transformation has been driven by the technological evolution and the important collaborative work between stakeholders.

An official emphasised that the G20 jurisdictions have advanced some aspects of the roadmap, with the support of the Financial Stability Board (FSB), the Committee on Payments and Market Infrastructures (CPMI) and other international organisations. The CPMI established a forum for central banks to discuss operational hours and access, while the Financial Action Task Force (FATF) continued its essential work on enhancing the wire transfer rule, which is FATF Recommendation 16.

1.2 Aligning banks and non banks

An official explained that the FSB's bank/non bank recommendations were designed to improve consistency of regulation and supervision of bank and non bank payment system providers (PSPs), using a risk-based approach. The emergence of non bank PSPs has led to a significant evolution in market structures and technology, which should bring benefits and risks. The FSB consultation on the recommendations contained specific proposals to address these risks by assessing risk management frameworks; providing clear supervisory guidance to firms; reviewing licensing requirements; and expanding data sharing among relevant authorities, as appropriate.

1.3 To define the conditions for interoperability and enable cross border data flows, it will be necessary to work with a wide range of authorities, the industry and non G20 jurisdictions

An official noted that the second important set of FSB recommendations relates to alignment and interoperability of data frameworks related to cross-border payments. For this piece of work, the FSB engaged extensively with FATF, the Organisation for Economic Cooperation and Development (OECD) and the Global Privacy Assembly (GPA) as well as industry stakeholders. The FSB's key recommendation is to establish a forum to bring together all these authorities to help address the identified frictions in data frameworks for cross border payments. Firms are worried about the difficulty of balancing the different supervisory and regulatory obligations, such as the balance between fulfilling anti money laundering (AML) obligations and data privacy. This forum would seek to bring together different types of authorities to consider these issues. The FSB's other recommendations on data frameworks are designed to promote alignment and interoperability of the implementation of data requirements and to mitigate restrictions on cross border data flows, i.e. data localisation or data mirroring, and to promote innovation. Improving the cost, transparency and speed of cross border payments should require more data to flow cross border, not less.

A Central Bank official agreed that the list of important stakeholders in payments includes the national, European and global authorities; institutions in the public sector and the private sector; and the non G20 members. For non G20 countries, progress on cross border payments is very important. On interoperability, one promising solution is the interlinking of FPSs and instant payment systems (IPSs). A specific example is the BIS Innovation Hub Project Nexus. While there are some doubts in the industry about the G20 Roadmap, its objectives are certainly worthy of support.

A Central Bank official agreed on the importance of extending FPS networks beyond G20 membership by bringing benefits to non G20 constituencies and maintaining a strong dialogue between public and private partners.

An industry representative emphasised the importance of ensuring private sector participation. The CPMI has involved the private sector in its cross border payments work, such as the payments interoperability and extension (PIE) task force.

2. Mitigating foreign exchange (FX) settlement risk in cross border transactions

An industry speaker highlighted the importance of mitigating FX settlement risk in cross border transactions. In any cross border payment, there is usually an FX leg which is subject to an exchange of currency. There is a risk that one party pays the currency which they have sold but does not receive the leg which they have bought. The payment versus payment (PvP) solution offered by CLS addresses this risk. One of the key obstacles in the G20 Roadmap is the challenge of emerging market (EM) currencies. Extending PvP solutions to EM currencies creates many different challenges, but the forthcoming initiatives should help to address these issues. There are many different legal, regulatory and geopolitical risk aspects to this problem, which chief risk officers (CROs) need to be aware of during the adoption process. In 2023, the G20 Roadmap moved into the prioritisation phase. CLS is participating in the new CPMI PIE task force, which aims to deliver concrete actions to establish and implement the cross border roadmap.

3. Other key challenges: data exchange standards, capital and currency controls, legacy infrastructure and inconsistent regulation

An industry representative noted that the FSB KPIs mandate that 75% of transactions should complete within one hour, but only 60% of transactions meet this goal. 90% of all transactions over the Swift network reach the end bank within one hour, but there are several reasons for delays that occur between the money arriving at the bank and being credited to the beneficiary's account. First, in certain countries and currency corridors there are systemic delays caused by currency controls, FX controls and mandatory regulatory processes. Secondly, some institutions are late in making payments due to batch processing, a lack of automation and legacy technology. Thirdly, the timing of payments is important. If a payment is going from west to east after the operating hours of the real time gross settlement (RTGS) system, it will take more time. In some cases, the existing instant 24/7 infrastructure can enable the last mile to be credited, but this is not possible everywhere. Policymakers need to identify the capital and currency controls that exist and consider whether anything can be done to speed up these last mile payments. With pre validation, better insights due to ISO 20022 and richer data, the collective cost of cross border wholesale transactions is continuously decreasing.

An industry speaker stressed that the ultimate goal of the G20 Roadmap is to achieve the highest possible degree of regulatory harmonisation. It is essential to ensure that loopholes are closed and money flows across jurisdictions in a transparent and safe way. Regulatory clarity, innovation and consumer protection are central objectives in the future of cross border payments.

An industry representative (Shiyanka Hore) added that the FSB's call for consultation is a positive first step towards framing the legal pathways for data sharing. This will be fundamental to tackling fraud at an industry level through enhanced anomaly detection and improved coordination between jurisdictions.

4. Future priorities in cross-border payments

4.1 Defining the conditions for widespread adoption of PvP

An industry speaker stated that one of the preconditions to widespread PvP adoption is the need to address the challenge with EM currencies. Bilateral netting is one way of at least partially mitigating this issue by enabling better liquidity risk management, more effective transfer and timely execution of settlement. PvP solutions have to change with the evolving needs of clients, members and key stakeholders. While the move to T+1 has not brought any material changes to volume and value, it will be important to anticipate the move to shorter settlement cycles in other jurisdictions. The 2025 BIS Triennial Survey will help create an accurate view of the magnitude of the remaining settlement risk, but it is important to recognise the importance of operational resilience. Whenever the business model or the underlyingtechnology changes, there may be additional risk. Defining and understanding this risk is essential to deliver a resilient service to the ecosystem.

4.2 Ensuring interoperability

The Chair agreed that resilience and interoperability are two of the most important priorities for any payment system. There is no interoperability without harmonisation and standardisation on messaging and data exchange.

An industry representative explained that the fragmentation in the financial ecosystem makes it necessary to use standards to ensure interoperability by design. ISO 20022 is an open standard that allows for rich data to be shared across the entire financial ecosystem. In Europe, most of the major schemes are ISO 20022 ready, such as TARGET 2, Single Euro Payments Area (SEPA), SEPA Instant Credit Transfer (SCT Inst) and One Leg Out Instant Credit Transfer (OCT Inst). Even private systems such as the EBA's EURO1 and RT1 are ISO 20022 enabled. If each market adopts its own version of ISO 20022, there will be no interoperability. This is why it is essential for Cross border Payments and Reporting Plus (CBPR+) to be interoperable with High Value Payments Systems Plus (HVPS+)[1] and the other standards and templatised usage guidelines used by RTGSs. Today, interoperability is achieved through correspondent banking. There is interoperability between the jurisdictions where RTGSs are already interlinked. In the future, there must be interlinkages between payment systems, central bank digital currency (CBDC) rails and closed loop systems that serve tokenised assets and trade platforms. In all of these systems, the adoption of universal identifiers, such as Bank Identifier Codes (BICs), Legal Entity Identifiers (LEIs) and unique end to end transaction reference numbers is extremely important. There must be harmonised standards for reference data and regulatory reporting and a framework of harmonised policymaking. The Instant Payments Regulation (IPR) is an instructive example of this.

4.3 The benefits of proportionate and consistent regulation

A Central Bank official explained that consistent regulation and supervision ensures that there is no friction between payment systems. Any differences in views on the application of oversight and supervision will inevitably lead to complications. Across different jurisdictions, there are changing views about how to balance AML and countering the financing of terrorism (CFT) measures and data privacy, for example. These differences can cause cross border transactions to fail. It will not be straightforward to address this issue. As other parts of the financial system have shown, the journey to convergence takes time. Without convergence, there is an un level playing field. In payments, this will result in failed transactions, higher transaction costs and a lack of transparency. There has been good progress in giving non bank PSPs access to the EU's payment system. With the adjustments to the Settlement Finality Directive (SFD) and the IPR, non bank PSPs should be able to participate in the EU's payment systems by next year, which will contribute to competition and further innovation.

An industry speaker suggested that there are three key focus areas on legal and regulatory requirements. First, it is important to address the competition challenges between banks and non bank PSPs by ensuring that unwarranted de risking practices are fully eliminated. These practices lead to challenges for business continuity and ultimately mean that consumers struggle to access products and services. Account closures and restrictions limit the availability of banking services to vulnerable populations. Secondly, the regulatory requirements need to be proportionate, fit for purpose and technically feasible. The new Payment Services Regulation (PSR) aims to enhance consumer fairness and information by enhancing transparency and increasing the amount of information associated with money transfers. However, the proposals to display FX margin will not improve consumers' ability to make an informed choice and might be confusing. For providers, it would be more useful to use independent benchmarks, as central bank reference rates may not consistently provide reference rates for all global currencies. Finally, it is essential to minimise the inconsistencies between requirements across legislative frameworks, including the rules on payment services, AML/CTF and data privacy. Duplicative and contradictory requirements create inefficiency and legal uncertainty, which penalises competitiveness. Ultimately, non bank entities need to be subject to the same regulatory requirements as banks, including on AML/CTF. The key is to ensure that the requirements are consistent and create as little confusion as possible for consumers.

The importance of international standards cannot be stressed enough. Moving forward, there will be increasing complexity in the payments space. Legacy and new payment systems will have to coexist as innovation continues and private and public innovations continue to interact. This complexity demonstrates that any new payment system must adhere to the international legal, regulatory and supervisory standards. Standards are the strongest and most proven form of interoperability. This is necessary for payment stability as well as financial stability.

5. Digital tools can contribute to the G20 cross border payments objectives

5.1 Promising experiments in the use of DLT and tokenisation

The Chair noted that in the short to medium term it will be necessary to improve the existing payment rails, but it is also important to consider the future of payments. From the outset, the G20 Roadmap sought to drive the use of new technologies to enhance cross border payments.

A Central Bank official commented that tokenisation will help the payments industry to meet the objectives of the G20 Roadmap by improving transparency and timeliness. While there are cyber and operational risks to the use of tokenisation, it also offers several advantages and features. Banque de France is trying to remediate these risks while taking an operational approach to the technology. Tokenisation and CBDC issuance on DLT could have two key benefits: improved settlement of tokenised assets and improved cross border and cross currency payments.

Banque de France's work on this subject started in 2022 with Project Mariana, which was about creating an automated market maker to be the central counterparty for FX transactions of CBDCs in different currencies.

1. Guidelines and standards such as CBPR+ and HVPS+ are closely associated with the transition to the ISO 20022 messaging standard, which is part of the broa der evolution of payment systems to meet the demands of the rapidly changing financial landscape by making high value transactions more secure, reliable and efficient.

Project Rialto was an experiment which interlinked several fast payment systems. Project Mandala was another successful project about automating cross border compliance using smart contracts. Banque de France has also started Project Agorá with seven other central banks. This project seeks to establish a unified ledger for seven major currencies. The goal is to have CBDCs and tokenised deposits on the same DLT system and to conduct cross border and cross currency exchanges. The project will publish its conclusions in late 2025. The Project Agorá platform would contain both commercial bank money and central bank money in a tokenised form in many different currencies. From a Capital Markets Union (CMU) perspective, the creation of a unified European ledger would drive efficiency in terms of the settlement of assets and help to eliminate fragmentation in the market.

5.2 The guiding principles of experimentation: defined objectives, optionality and innovation

An official explained that the payments industry is in a remarkable period of innovation, as jurisdictions, international organisations and the industry are developing and experimenting with new technologies. There are several key principles that should guide these experiments. First, cross border payment solutions should be designed to achieve well defined objectives. In the retail market, there are already technologies that provide better speed to market than some new approaches; the benefits of tokenisation on the wholesale side might justify investment, however. It is unlikely that any single technology will meet all the policy goals. Secondly, policymakers need to preserve optionality. Investment in experimentation should be balanced with investment in legacy systems. Indeed, public authorities need to remain technologically neutral. Finally, it is important to remember that the private sector has advantages with regard to innovation and to market; a main task of the public sector is to provide a level playing field.

A Central Bank official noted that it is important to moderate expectations for the initiatives on DLT and tokenisation. These experiments have been happening in the private sector for over 15 years, but real progress has been limited. The development of a unified ledger would solve many of the problems being addressed by the G20 Roadmap, but it will be difficult to create.

The Chair outlined the key points of the discussion. First, transparency and safety are key priorities. Secondly, the efforts on cross border payments should not be limited to the G20. The G20 targets are global targets which require input from non G20 jurisdictions. Thirdly, this initiative needs both the public sector and the private sector. Finally, there must be optionality in terms of technologies and legal and regulatory frameworks.