GLOBAL AND EU CROSS-BORDER PAYMENTS

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The G20 cross-border payments programme is proceeding at pace

Enhancing cross-border payments can offer benefits to all, through lower costs, faster speed, greater transparency and improved access. The Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI), in coordination with the Financial Stability Board (FSB), the International Monetary Fund, the World Bank and other relevant international organisations and standard-setting bodies, has conducted a variety of stocktakes and analysis in the first two years of the G20 cross-border payments roadmap. The cross-border payments programme in 2024 is advancing at pace towards its target destination.

To monitor progress the implementation of measures of the prioritised G20 roadmap, the CPMI launched in 2023 a monitoring survey among central banks on the updated roadmap's three priority themes. These priority themes are (i) payment system interoperability and extension; (ii) cross-border data exchange and message standards; and (iii) legal, regulatory and supervisory frameworks.

The results, based on the feedback of 71 central banks, suggest that the journey of enhancing cross-border payments has successfully started: 71% of real-time gross settlement (RTGS) systems and 91% of fast payment systems have completed or are planning to complete at least two of the priority actions. All fast payment systems already operate 24/7, and many are now focused on implementing the ISO 20022 messaging standard and are planning interlinking initiatives with other fast payment systems for cross-border payments. Most RTGS systems are also planning to implement the ISO 20022 messaging standard.

In recent decades, domestic payment landscapes have benefited from some transformative improvements such as the introduction of fast payment systems, migration to the ISO 20022 messaging standard and the renewal of RTGS systems. Fast payments have become a viable alternative to cash or card payments in many jurisdictions and have supported financial inclusion, lower transaction costs and increased competition for retail payments. Even where initiatives have a domestic focus, they have the potential to improve the first and the last mile of cross-border payments.

One promising solution in the near to medium term to extend the domestic fast payments experience across borders is interlinking. Linking fast payment systems between jurisdictions, combined with strong governance and oversight, can enable such functionality across borders without compromising on safety and efficiency. The CPMI recognises the promise that fast payment systems interlinking shows for cross-border payments and is committed to its implementation across a large number of jurisdictions.

Agreeing on robust governance and oversight arrangements can be especially challenging due to the multi-jurisdictional, cross-border and potentially cross-currency nature of these arrangements. To support this, the CPMI is finalising a framework for the governance and oversight of these arrangements that will be delivered to the G20 in October.

Improvements in messaging standards and data exchange can also assist in the initiatives of interlinking fast payment systems. The CPMI has two initiatives in this area that aim to address current frictions. The first initiative is the harmonisation of the ISO 20022 messaging standard. Last year, the CPMI published its harmonised data requirements for enhancing cross-border payments to overcome differences in implementation across jurisdictions. The second initiative is the harmonisation of application programming interfaces, or APIs, which are increasingly relevant for data exchange between providers. In October 2024, CPMI will publish a report to the G20 around facilitating greater harmonisation of APIs in cross-border payments.

The cross-border payments programme requires collective public and private sector commitment. Cooperation is essential. As many jurisdictions and stakeholders as possible, including emerging markets and developing economies, must come on board. To assist this, the CPMI convenes G20 and non-G20 central banks in a community of practice, and private sector stakeholders in the payments interoperability and extension industry taskforce, as platforms for cooperation, coordination and discussion.

Enhancing cross-border payments also requires sustained action by individual jurisdictions and payment systems, with continued public-private sector collaboration. The CPMI will continue monitoring the progress across the priority themes and stands ready to facilitate the discussion and provide guidance as needed.

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DLT applied to cross-border: what potential for more efficient infrastructures?

Achieving faster, cheaper, more accessible and more transparent cross-border payments is the aim of the roadmap set by the G20. Tokenisation, defined as "*the process of recording claims on real or financial assets that exist on a traditional ledger onto a programmable platform*"[1], is one promising way to achieve these policy objectives.

There are three reasons why the use of a Distributed Ledger Technology (DLT), which is the main vector for tokenisation, could be beneficial in cross-border payments. First, DLT can improve transparency and ease data reconciliation. Second, DLT reduces costs and inefficiencies by optimising processing thanks to smart contracts. Third, DLT functions on a 24/7/365 basis, which could significantly shorten transaction time, in particular for cross-border transactions over different time zones.

However, several features of tokenisation carry financial stability implications such as fragmentation resulting from multiple competing DLT, and other legal or cybersecurity risks.

In this context, central banks and the BIS Innovation Hub (BIS IH) are undertaking experiments to explore the potential of tokenisation to enhance cross-border payments. Since 2020, the Banque de France has been conducting experiments, with a view to issuing a wholesale Central Bank Digital Currency (CBDC) and developing interoperability with other DLT platforms to limit market fragmentation. The Banque de France has been a pioneer along two key dimensions.

First, to further strengthen the role of the euro as an international currency, the Banque de France successfully experimented the use of an automated market maker (AMM) solution for the cross-currency exchange of wholesale CBDCs. An AMM solution would be a unique counterpart for all currency buyers. Furthermore, an AMM would operate 24/7 and set a currency price according to the proportion of CBDC in the liquidity pool.

Project **Mariana** (2022-2023) achieved a better understanding of AMM, and its ability to trade, price and settle in a single operation. Project **Rialto** (2024-2025), in the wake of Mariana, aims to further improve instant cross-border payments using also interlinked instant retail payment systems.

Second, the Banque de France also focuses on the concept of unified ledger, a new kind of financial market infrastructure, which could combine tokenised central bank money, tokenised commercial bank money, and tokenised financial assets on a common seamless programmable platform.

This is the aim of Project **Agorá**, a public-private partnership between the BIS IH and seven leading central banks, plus several commercial banks, payment providers and financial market infrastructures (FMIs). It focuses on wholesale payments and it will test the feasibility of a multi-currency ledger for cross-border payments and the possibility of bringing together wholesale central bank money and commercial bank money in the form of tokens as the basis for a new type of FMI.

The Banque de France's participation in Agorá as the representative of the Eurosystem is of particular interest for the enhancement of the Capital Markets Union (CMU). A European unified ledger would be an infrastructure operated by European governance standards, on which tokenised financial instruments and tokenised settlement assets including CBDC, currently being explored by the Eurosystem, would coexist. This new infrastructure should initially target less efficient market segments that currently rely largely on manual processes, such as registrars and transfer agents for funds, but could then gradually extend to other asset categories.

Tokenisation is an ever-changing but promising process that authorities must continue to explore.

A European unified ledger could thus contribute to deepening the CMU. It has indeed the potential to improve the efficiency of post-trade in Europe through increased interoperability for market participants. It could also encourage the development of products issued directly on DLT, such as securities for innovative companies and green bonds, thus facilitating the allocation of European household savings to finance the green and digital transitions. Also, a unified ledger may overcome the constraints due to regulatory diversity in Europe, thanks to the programmability features offered by DLT.

These projects reflect the broad range of use cases that DLT provides for cross-border payments and its potential to address key frictions in this domain. Its implementation within the Eurosystem may also be particularly relevant to the objectives of the CMU. Tokenisation is an ever-changing but promising process that authorities must continue to explore.

1. *Bank for International Settlements, 2023, The tokenisation continuum*

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Harmonising standards and data sharing drives global payments interoperability

Harmonisation of financial messaging standards is critical for achieving improved straight-through processing, reducing cost and risk, and improving customer experience. But, to achieve faster, cheaper, more accessible and transparent global payments, this is not enough.

Harnessing ISO 20022

The industry's move to the data-rich ISO 20022 standard is a significant leap forward. The High Value Payment market infrastructures (MI) and the global banking community are on an adoption journey, and 68% of low-value payment MIs have also adopted ISO 20022.

In Europe, all ECB payment schemes are now ISO 20022 native – Target2, SEPA, SEPA Inst and OCT Inst – along with regional private rails like EBA Clearing's EURO1 and RT1.

But the alignment of market practice across these Payment Market Infrastructures (PMIs) is critical if we're to achieve seamless interoperability. A number of working groups have been collaborating in this space:

The Payments Market Practice Group (PMPG), a global industry forum, has created the Cross-border Payments & Reporting Plus (CBPR+) usage guidelines

The High Value Payments Systems Plus working group, an industry-led initiative to harmonise ISO 20022 usage guidelines for high-value payment PMIs, has created the HVPS+ usage guidelines

The Committee of Payments and MIs (CPMI) published a set of harmonised ISO 20022 data requirements for the industry.

Gearing up for the G20 goals

The G20's drive to enhance the speed, cost, access and transparency of cross-border payments has provided motivation for collective efforts for harmonisation across borders.

Swift, in collaboration with our global community, has delivered a number of building blocks, addressing friction in the payment chain and helping to drive the industry towards the G20's goals.

Harmonising standards and data sharing frameworks is critical for achieving global interoperability.

Now, 90% of transactions over Swift reach the beneficiary's bank within an hour. But there's work to do at the industry level to ensure end-customers can access these funds as quickly as possible. Delays in money reaching the account often occur because of friction on the beneficiary leg – caused by currency controls, batch processing systems and limited MI operating hours. Local infrastructure and policy therefore have an important role to play in achieving the G20 goals.

Empowering instant PMIs for cross-border payments

The proliferation of Instant Payment Systems (IPS) has transformed domestic retail payments, but very few are cross-border enabled. The G20 roadmap is looking to enable domestic IPSs for the last-mile delivery of international payments and is exploring IPS-interlinking.

The BIS' Project Nexus is focused on connecting multiple domestic IPSs to enhance cross-border payments. The project is leading the way in demonstrating the need for harmonisation beyond messaging, covering shared technical standards, rulebooks and governance.

There are other established models in this space, such as the One-Leg-Out (OLO) model that has been adopted by Europe with the introduction of the OCT Inst scheme in November 2023.

This work highlights the need for shared standards between IPS MIs, but differences remain between disparate domestic low-value payment standards and industry-wide cross-border standards. As such, the Instant Payments Plus (IP+) working group, a collaboration between Swift and the industry, developed an ISO 20022 market practice aligned with the guidelines developed for CBPR+ and HVPS+, to enable instant payment systems for cross-border payments.

Swift continues working with the PMPG to ensure that CBPR+, HVPS+, IP+ and the CPMI data model are fully interoperable.

Facilitating interoperability through harmonisation

Taking a holistic view of harmonisation is vital, recognising that it's not just about messaging standards. Enabling seamless interoperability requires alignment of market practice, sharing of reference and regulatory reporting data to enable pre-validation, and the adoption of common technical standards (e.g. Unique End-to-End Transaction Reference).

Europe's policymakers are working towards this wider harmonisation in developing regulation for cross-border and instant payments. An excellent example is the European Commission's Verification of Payee (VoP) security measure – soon to be compulsory for all instant payments across the EU & EEA. This helps prevent accidental misdirected funds and fraud, important since instant payments are irreversible.

Some European countries have already implemented domestic VoP systems. While these work domestically, some have limitations in cross-border scenarios. Swift is helping to facilitate interoperability between solutions and aiding FIs to meet the requirements through our Payment Pre-validation service. We're committed to developing a community-driven interoperability model. Through this work we can realise the vision we share with the G20 to deliver instant, frictionless and interoperable cross-border transactions that are faster, cheaper, more accessible and transparent.

TIM KEANE
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Harmonization to enhance the cross-border payments

The financial services sector, with its relentless focus on new technologies, is at the very top of the industries that haven't just embraced innovation, but can claim that their use of innovation has changed the way people live and work, and companies operate across the world – a world where geographical borders now matter less, and global markets are interconnected more than ever before.

The payments sector has been at the forefront of this digital transformation, not least to also respond to evolving consumer expectations. Customers today benefit from faster, cheaper, more secure, and convenient cross-border payment solutions. For companies operating at a global level, such as Western Union, ensuring that consumers can benefit from similar payment experiences across jurisdictions is a priority at the core of our operations.

These developments have been made possible both because of technological evolution and due to the important collaborative work that has been taking place internationally. The G20 is now entering the implementation phase of its Cross-Border Payments Roadmap, with a final push to achieve the highest degree possible of regulatory framework harmonization and ensure that payments benefit from increasingly interoperable systems. The Financial Action Task Force is, amongst others, prioritizing the alignment of the information collected associated with global payment value chains. This is essential to ensure that loopholes are closed, and that money can flow across jurisdictions in a transparent and safe way.

With all these significant steps taken at a global level, it is equally important to guarantee that the European Union remains integrated in the global payments landscape, as a major player fostering both innovation and consumer protection. To that effect, important efforts are underway: For companies like Western Union operating across the entire Single Market, the paradigm shift towards a more Regulation-based approach is truly welcome. The new AML Regulation, and soon-to-be established centralized Authority, will also contribute to a more harmonized approach that will help prevent financial crime, closing existing loopholes and facilitating the exchange of information between obliged entities and supervisors.

However, to contribute to a better functioning of Payments market, further emphasis on interoperability and harmonization across Member States is still needed, including on consistent rule enforcement. Despite progress made, friction on the cross-border provision of payment services persist, hurting consumers and preventing businesses from achieving efficiency gains and scaling up their operations.

To harmonize and align the rules internationally will allow to encourage further innovation.

Ongoing efforts on the Payment Services Package and the implementation of the various payments and AML frameworks provide a unique opportunity to enhance both payment system harmonization and interoperability and addresses Cross Border Payments Roadmap's building block 5 challenges. Amongst others, Western Union believes that the Cross Border Payments framework could benefit from:

- Addressing persisting competition challenges between bank and non-bank PSPs, notably by ensuring that unwarranted de-risking practices are fully eliminated. These practices lead to significant challenges for business continuity, ultimately affecting consumers who struggle to access products and services with their PSP;
- Ensure that regulatory requirements are proportionate, fit-for-purpose and technically feasible. The new PSR as well as aims to enhance consumer fairness and information through enhanced transparency on the information associated with money transfers. Western Union strongly supports these efforts but the proposals to display FX margin may not improve consumers' ability to make an informed choice and could even be confusing. For providers, independent benchmarks would be more technical appropriate as central bank reference rates may not consistently provide reference rates for all global currencies that are accessible to market participants; and
- Minimize inconsistencies between the various requirements across legislative frameworks, including the rules on payment services, AML/CTF and data privacy. Duplicative and contradicting requirements lead to decreasing efficiencies and significant legal uncertainty, penalizing the competitiveness.

The current momentum to harmonize and align the rules, within the EU and internationally, needs to be leveraged to improve the way existing cross-border payments are conducted and encourage further innovation in the sector. Western Union, with its unique global perspective, will continue to support policy makers and the industry on these efforts, contributing to better cross-border payments, better risk-mitigation techniques, fairer competition and offer consumers safer, cheaper and more convenient cross-border money transfers.

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The importance of PvP in an everchanging FX ecosystem

CLS was established in 2002 as a response to the public sector's call for the private sector to mitigate foreign exchange (FX) settlement risk. This is the risk that one party delivers the currency it sold but does not receive the currency it bought, resulting in a loss of principal. CLS's payment-versus-payment (PvP) solution has grown to be the de facto market standard for tackling FX settlement risk, settling payment instructions in 18 of the world's most traded currencies.

The proportion of FX trades not settled on a PvP basis has increased in recent years, driven by the growth in emerging market (EM) currency trading. According to the Bank for International Settlements 2022 Triennial Survey,[1] the share of non-CLS eligible currencies grew from USD0.2 trillion average daily turnover in 2010 (ca. 5.5% of trades) to USD0.7 trillion in 2022 (ca. 8.5% of trades). This has led the FX market to renew its efforts in reducing FX settlement risk. One way to mitigate the outstanding settlement risk is to make PvP and other practices for risk mitigation, including netting, available to a broader range of currencies – particularly heavily traded EM currencies.

Extending PvP solutions in EM currencies comes with challenges, ranging from operational to legal and regulatory aspects, that must be carefully managed in the current geopolitical context. There are several public / private sector initiatives around the globe exploring ways to further facilitate the mitigation of the FX settlement risk.

In October 2020, the Financial Stability Board published the G20 Roadmap for Enhancing Cross-Border Payments, an initiative addressing the challenges of cost, speed, transparency, and access in cross-border payments. Building Block 9 of the G20 roadmap focuses on mitigating FX settlement risk for cross-border payments – a key challenge for the wholesale market – by encouraging the use of PvP arrangements. The G20 initiative acknowledges that while existing PvP systems like CLSSettlement have made significant progress in reducing settlement risk, there are still obstacles to broader PvP adoption.[2]

During its first two years, the G20 roadmap initiative focused on stock-takes and analysis. On this basis, and in an effort to deliver tangible enhancements to cross-border payments by the end of the 2027, the project established a three-year prioritization plan and a public-private sector engagement model.[3] As a member of the CPMI-led Payments Interoperability and Extension task force, CLS is working with a diverse group of public and private sector stakeholders to help achieve the G20 cross-border payments targets.

Several public/private initiatives are exploring further mitigating FX settlement risk.

CLS is also contributing to the three-year review of the FX Global Code, a set of global principles of good practice for the FX market. The FX Global Code inter alia encourages FX market participants to explore ways to further mitigate risk and reduce operational costs by adopting a best practice approach to FX settlement risk management and netting (principles 35 and 50).

There is a spectrum of settlement practices starting ideally with PvP settlement, which fully mitigates FX settlement risk, to different kinds of netting solutions which are encouraged to at least help decrease FX settlement risk exposure.[4] One could picture this as a "waterfall" of potentially cascading mechanisms.

At the top of the waterfall, CLSSettlement provides the wholesale settlement backbone for the global FX market, settling on average over USD6.6 trillion a day. CLS estimates that it has captured 90% of the CLSSettlement-addressable market, with volumes continuing to grow. In June this year CLS settled a record value of USD19.1 trillion.

Further down the waterfall and where PvP is not available, CLS provides an automated bilateral payment netting calculation service, CLSNet. This service helps market participants benefit from greater operational efficiency and enhanced risk mitigation for over 120 currencies, including currencies not supported by CLSSettlement. This service continues to grow, and its average daily netted value[5] is now USD148 billion, up 40% year-on-year. In June this year CLSNet saw a record daily netted value of USD593 billion.

CLS will continue to engage with the community of regulators, central banks and the industry to work on solutions to mitigate settlement risk, particularly for EM currencies.

1. *BIS Triennial Central Bank Survey; bis.org/statistics/rpfx22.htm*
2. *CPMI (2023) Final Report – Facilitating Increased Adoption of PvP*
3. *See cls-fx-policy-01-navigating-the-fx-lane-shaping-fx-series-september-2023.pdf (cls-group.com)*
4. *See cls_shapingfx02_pvp_or_not_to_pvp_may2023.pdf (cls-group.com)*
5. *Netted value refers to bilateral net payment amounts calculated by CLSNet*