



**EBA CLEARING response to the report on
Facilitating increased adoption of Payment versus Payment¹**

EBA CLEARING welcomes the publication of the CPMI report on Payment versus Payment (PvP).

Cross-border payments are the heart of EBA CLEARING's mission. EBA CLEARING has been offering pan-European payment systems and services since 1998 and currently provides clearing and settlement services across over 30 countries. With extensive experience in navigating and dissolving the historic barriers to cross-border payments in Europe, EBA CLEARING is committed to continuing to connect payment service providers to new markets, by offering user-driven, cost-effective and reliable solutions.

As further described in the response below, EBA CLEARING, The Clearing House (TCH) and SWIFT are developing an immediate cross-border payments service ("IXB") which will synchronise settlement of a payment in one instant payment system with settlement of a second payment in another instant payment system operating in another currency, and convert real-time messages between both systems. In the first instance, IXB will be focused on EUR-USD retail payments, synchronising settlement in the RT1 System (RT1), the EUR instant payment system of EBA CLEARING and in the RTP Network (RTP), the USD instant payment system of TCH, with the possibility to replicate the model for wholesale payments and/or across different currency corridors in the future.

All participants in RT1 and RTP will be eligible to participate in the IXB service of their system. The service will benefit from the operational resilience, legal soundness and liquidity efficiency of each payment system.

In this light, please see below the responses of EBA CLEARING to the questions listed in the Report.

In Section 2:

1. Do you agree with the analysis of the causes of non-PvP settlement?

EBA CLEARING is not currently active in the provision of cross-currency payment services, with the exception of the IXB pilot service expected to launch at the end of 2022. Accordingly, it cannot comment on the historic causes of non-PvP settlement. However, IXB could address many of the technical barriers and widen access for PSPs to cross-currency flows.

Regarding cross-border payments in general, significant barriers to efficient cross-border payments exist on the regulatory side, where legal and regulatory frameworks

¹ Published by the Committee on Payments and Market Infrastructures (CPMI) in July 2022 ("Report").

covering areas such as AML/CTF, consumer protection, cyber security and data protection are not harmonised and make it more complex and expensive to execute. In some instances, efforts by the industry to increase the speed, transparency and reach of international payments have been hampered by de-risking which is made worse by fragmented regulatory requirements around AML/CTF.

Similarly, there are certain prerequisites for payment system operators to create legally sound payment systems in a cross-border context. Depending on the context, these prerequisites can include compatible settlement finality regimes in each jurisdiction and cooperative oversight frameworks across jurisdictions.

The private sector has nevertheless engaged in significant efforts to facilitate the use of existing infrastructure with a view to enhancing cross-border payments, and in a manner that would address the causes identified by the CPMI. These efforts include the development of 24/7 operations and the use of ISO 20022 messaging standards, and exploring ways to leverage existing infrastructure. Reusing existing infrastructure reduces the cost of developing a new service and the costs to participants to onboard. The reuse of existing infrastructure also ensures that any new service will already have a critical mass of users, creating network effects from the outset.

2. Do you find that, for your market segments, some causes are more important than others? Please explain.

No comment.

3. In which currency pairs or products do you find that non-PvP settlement is increasing?

No comment.

In Section 3:

4. Do you agree with how the proposals for new solutions could increase the adoption of PvP?

No comment.

5. Do you find that these new solutions, together, if launched successfully, can mitigate FX settlement risk? Please explain.

As observed by the CPMI in the Report, “*existing PvP arrangements and several new proposals target mainly wholesale use cases...*”. EBA CLEARING is not in a position to comment on the degree of settlement risk in these arrangements. EBA CLEARING also notes that there are alternative methods to manage FX exposures outside of PvP arrangements.

Nevertheless, as regards retail cross-border payments, IXB will mitigate settlement risk through the combination of conditional gross settlement, real-time processing and robust settlement finality protection. Specifically, the settlement of the payment in the domestic



system/currency will be conditional on the successful gross settlement of the payment in the target system/currency, and both settlements are to occur in a matter of seconds. The finality of each payment is protected by the settlement finality regime that applies to each instant payment system in each jurisdiction.² Liquidity efficiency can be achieved by channelling like flows reciprocally over the service.

In Section 4:

6. Do you agree with the analysis of the barriers to increased adoption of PvP?

EBA CLEARING is not currently active in the provision of cross-currency payments, with the exception of the IXB pilot service expected to launch at the end of 2022. As such, EBA CLEARING cannot comment on factors which have historically limited the adoption of existing PvP arrangements.

However, going forward, EBA CLEARING considers that cross-currency arrangements like IXB that leverage existing financial market infrastructure are likely to be successful.

This is because existing infrastructures, across which settlement can be synchronised:

- are increasingly interoperable, thanks to 24/7 operations and ISO 20022 messaging standards;
- have a large user base, ensuring that new services are user-driven and will benefit from network effects from the outset;
- are designed to optimise liquidity efficiency in accordance with their users' needs;
- are legally and operationally robust; and
- are overseen by the relevant central banks.

In addition, reusing existing infrastructure is cost-efficient and quick-to-market, and optimises the investments the industry has already made.

7. Which barriers do you find most significant, and do you observe any additional barriers that are not identified in the report? Please explain with specific reference to individual barriers.

No comment.

8. Do you agree with the possible roles for private and public sector stakeholders in addressing the barriers?

Regarding the potential roles of the public sector, EBA CLEARING supports in particular the catalyst function of central banks (no. 6). In addition to facilitating industry discussions as described in the report, central banks also have an essential role in ensuring that the applicable oversight frameworks support, rather than constrain, new cross-border arrangements.

² The cross-currency settlement risk lies with the provider banks in a correspondent relationship. However, the payments settled in each system are final.



EBA CLEARING also agrees with role no. 4 for the public sector – addressing regulatory barriers. As noted above in response to Question 1, significant barriers to efficient cross-border payments exist on the regulatory side. In the specific case of PvP, harmonising settlement finality regimes would contribute towards mitigating settlement risk in jurisdictions which currently lack settlement protection.

Regarding the suggestion that central banks should assess expanding access to central bank accounts to PvP providers (role 5(a)), it is essential that any developments in this area maintain a level playing field between supervised/overseen entities, and entities that are not supervised/overseen.

9. Do you find that the private sector could take on other roles in facilitating increased adoption of PvP? Please explain.

It is important that the CPMI also recognises that there are valid measures other than PvP to mitigate and manage FX settlement risk. Regarding PvP specifically, the CPMI Report already describes a selection of private sector initiatives that are underway, demonstrating the innovation and agility of the private sector in this space. As noted above in response to Question 6, EBA CLEARING considers that the market will benefit from cross-currency solutions that leverage existing infrastructure in a cost-effective manner. EBA CLEARING would encourage the public sector to support these private sector efforts.

10. How could the public and private sectors work together to take this forward? Please explain and suggest any practical actions that could be taken by existing industry bodies.

EBA CLEARING looks forward to continuing to contribute to the *G20 Roadmap*, and trusts that the existing CPMI and FSB workstreams for each Building Block and related industry consultations will create the necessary conditions for the industry to continue to enhance cross-border payments.