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CPMI Secretariat
Bank for International Settlements
Basel, Switzerland

Submission by email to: cpmi@bis.org

Response to “Linking fast payment systems across borders: considerations for governance and oversight” Interim Report for the G20

To Whom it May Concern,

Please find attached the submission of the Emerging Payments Association Asia (EPAA) to the “Linking fast payment systems across borders: considerations for governance and oversight” Interim Report to the G20 (“the Report”) released by the BIS / CPMI in October 2023.

EPAA’s goal is to unify the payments agenda in the region, drive business development and improve the regulatory landscape for all organisations within the payments value chain. We are a community of payments organisations whose goal is to strengthen and expand the payments industry for the benefit of all stakeholders. More information about EPAA can be found on our website www.emergingpaymentsasia.org.

Please note, that while we have consulted within our membership, any views expressed in this submission are solely the views of EPAA and do not necessarily represent the views of individual contributors, EPAA Ambassadors or EPAA Members.

EPAA has been strongly supportive of the G20 / FSB cross-border payments agenda. We have been an active contributor to previous CPMI, BIS and FSB consultations and remain actively involved in a number of forums including through our membership on the CPMI/BIS PIE Taskforce, FSB LRS Taskforce and API Expert Panel.

1. What are your views on the working definition of governance laid out in this report?

We would agree that the PFMI definition for “governance” is a suitable starting point for considering the governance of interlinkage arrangements.

However, we would caution against governance discussions that are limited to formal structures and processes for decision-making. Governance needs to be considered within a context of wider dependencies such as liability, resourcing, and risk.

As well, governance of interlinkage arrangements should incorporate how standards will be updated and maintained and how new features and functionality will be determined and developed. This is crucial given the dynamic nature of standards, technology, regulation and end-user needs.

2. Do you think that some specific features of governance should be prioritised and if so, which ones? What would be the basic/simple requirements for a resilient governance arrangement to be adopted by an interlinking arrangement?

Based on the specific features identified in the Paper, we would argue that ownership (and related issues such as resourcing) are key features that require resolution before other features can be addressed.

In terms of a basic / simple requirement for resilient governance and based on our experience in the establishment of new arrangements, we would observe that resilient governance is built on an understanding that governance is not merely a legal or structural consideration but that governance arrangements need to exist within a context where there is alignment in terms of strategy, funding, liability, and risk. Misalignment can happen, for example, where input into governance is disassociated from the funding source or where liability and risk is borne inequitably across groups. In such instances, the structural or legal governance design can be undermined.

3. Can existing governance or oversight frameworks and/or arrangements be leveraged for FPS interlinking? Do you think that different FPS interlinking models should be subject to different governance or oversight frameworks? Please explain.

We believe that existing governance and oversight frameworks can be leveraged for interlinkage governance, though there needs to be caution in assuming it is more efficient to leverage what is already there as this is not necessarily always the case. Existing arrangements bring their own history and often leveraging them can perpetuate their historic shortcomings. Starting fresh can often be more effort but brings fresh thinking and contemporary practice on governance and oversight.

Based on our experience, governance can be leveraged effectively, particularly if there is a commonality of the stakeholders involved in the current governance arrangement with the new arrangement. Leveraging oversight may be more challenging as oversight bodies often have different mandates and powers, and quite demanding decision-making processes – making it onerous and time-consuming to find alignment.

4. Are the 10 considerations learnt from the interaction with stakeholders comprehensive? Is anything important missing or not properly addressed?

The 10 considerations outlined in the Paper appear to be broadly comprehensive.

From our experience, Consideration 9 - Oversight Cooperation can often be the most challenging. This is not merely due to the challenges noted above of mandates and decision-making but also due to the challenges associated with aligning regulatory requirements, which we expand on below.

5. Is there any further guidance (beyond those listed in Annex 1) that would support safe and efficient FPS interlinking arrangements?

EPAA has consistently noted that greater regulatory consistency across jurisdictions and a more open approach to data will enable smoother and easier cross-border linkages to be established between systems, which are ordinarily premised on a national basis.

We note that organisations such as the World Economic Forum have also highlighted how regulatory issues have contributed to frictions in the making of cross-border payments.¹ These frictions include:

- Data privacy and data security requirements (including data localisation)
- AML/CTF compliance requirements (including the application of the “travel rule”)
- Differences in regulatory and oversight frameworks
- Limited access to payment systems and infrastructure

While the FSB and BIS / CPMI offer forums that central banks can discuss and work towards alignment, more needs to be done with regulators that are responsible for topics that are not ordinarily the remit of central banks, such as AML/CTF, privacy, consumer protection, system access and the licensing of payment service providers. Central banks need to be supported within their jurisdictions to engage proactively with other local policymakers and regulators so there is a clearer understanding of the importance of G20 cross-border payments agenda and to foster greater cooperation and coordination across a wide range of policymakers and regulators.

At a minimum, those policymakers and regulators in other topic areas related to cross-border payments should be developing common definitions, agreeing on common standards and proactively exploring greater coordination and mutual recognition.

6. Consideration 1. To what extent is the alignment regarding strategic and economic policy priorities among the involved jurisdictions a pre-condition for the design of an interlinking arrangement’s governance?

We would agree that strategic and policy considerations are important pre-conditions for interlinkage arrangements. This requires trade ministries and multilateral agencies, which often leave payment system issues to central banks, to also be actively involved in identifying and supporting such synergies. There are often supportive provisions within bilateral and multilateral trade agreements that address digital economy / digital trade that can be leveraged to assist in the development of interlinkage arrangements (for example, the Singapore-Australia Digital Economy Agreement which has an entire Article devoted to Electronic Payments).

7. Consideration 2. What is the best way to identify and define a shared long-term vision in terms of objectives and guiding principles (inclusivity, neutrality, agility etc) of an FPS interlinking arrangement?

We would agree that establishing a long-term vision in terms of objectives and guiding principles is a necessary first step for an interlinkage arrangement. It is important to avoid premature solutioning and to have an agreed understanding of what needs to be done and why.

Developing this vision requires leadership as well as forums for robust discussions with a wider range of stakeholders. Best practice can be a good starting point, but any long-term vision should be meaningful for the circumstances of the interlinkage.

We would also note that inclusivity, in respect to system access, a wide range of available channels and keeping costs low for end-users, has often been a major consideration in the development of Instant Payment Systems. As such, inclusivity should also inform the long-term vision of interlinkage arrangements.

¹ Leslye Sihway Diburga and Yan Xiao (Lead Authors) *Unlocking Interoperability: Overcoming Regulatory Frictions in Cross-Border Payments*, World Economic Forum White Paper, September 2023.

8. Consideration 3. Do you agree that two key design choices in the governance of an FPS interlinking arrangement are the ownership structure and the applicable legal framework? Are there others?

We would agree strongly agree that ownership structure and the applicable legal framework are critical threshold questions – though as we noted previously, these decisions need to be considered in association with other key dependencies such as resourcing, funding, liability, and risk.

9. Consideration 4. How can the governance of the interlinking arrangement ensure flexibility, scalability and openness to cope with structural changes, such as new corridors/services or changes in ownership?

We would agree that robust governance is a critical foundation for enabling flexibility, scalability and openness that can cope with and advance change. Interlinkage arrangements, much like modern payment systems, cannot be “set and forget” and need to be able to adapt to a changing environment. In addition to robust governance, there needs to be a strong commitment within the governance to continuous improvement. This can be done within any type of governance arrangement – private consortium, public / private partnership or central bank-operated system.

10. Consideration 5. What are the most important ways in which the governance can help make the FPS interlinking arrangement commercially viable/sustainable?

As we note above, ensuring governance design decisions consider matters such as resourcing, liability and risk (as well as inclusivity) is key. We would further emphasise that a clear understanding of how the interlinkage arrangement will be funded, both initially and on an on-going basis, is essential.

11. Consideration 6. What governance mechanisms can FPS interlinking arrangements adopt to involve stakeholders and appropriately consider their views in the decision-making process without adversely affecting its agility?

We would note that actively encouraging and having forums for industry involvement is critical. This applies to private consortium, a public / private partnership or a central-bank-operated system. Brazil's PIX is a good example of a central bank-operated system which has benefitted from its robust industry engagement through the PIX Forum.

We are more than happy to expand further on the items raised in this submission or to provide further information. If you do have any comments or questions, please feel free to contact EPAA's Policy Lead Dr Brad Pragnell.

Kind regards,

Camilla Bullock

CEO, Emerging Payments Association Asia