FNALITY

Response to CPMI Consultation Report on Extending and aligning payment system operating hours for cross-border payments

Fnality International Limited

14 January 2022

Introduction

We very much welcome the opportunity to comment on this comprehensive consultative report. Extending operating hours of central bank operated Real-Time Gross Settlement (RTGS) systems is a necessary, but not sufficient condition to deliver on the commitment of G20/FSB members to enhancing cross-border payments. Given the rather long list of questions in the report we focus our comments on those questions that are the most relevant from a Fnality perspective.

Making cross-border payments safer and more efficient is at the heart of the Fnality project. While the initial focus is on the major currencies, expansion to other currencies and regions is also in scope. Fnality is a private sector led solution established by 15 global financial institutions. Each Fnality Payment System (FnPS) enables the making of large value payments in the local currency among its eligible wholesale participant institutions to meet a wide range of business needs. All FnPSs settle in central bank money or equivalent depending on the legal provisions of the jurisdiction. Each FnPS is also designed to be interoperable with each other FnPSs to enable PvP settlement of FX transactions and with third party business platforms (e.g. securities settlement systems, CSDs) to enable DvP settlement.

2. Answers to CPMI Questions

2.1 Can the extension of real-time gross settlement (RTGS) systems' operating hours materially contribute to achieving the cross-border payments targets endorsed by the G20, especially in terms of speed? Please explain.

In the absence of direct links among RTGS systems, cross-border payments (including FX transactions) typically settle through private sector intermediaries (banks, payment systems or payment service providers). The settlement of cross-border payments includes a sequence of several steps, at least one of them is likely to be a payment in an RTGS system. Thus, the shorter the operating hours of RTGS systems, the longer it takes for a cross-border payment to be completed. Or put differently, longer RTGS system operating hours will undoubtedly speed up cross-border payments.

2.2 What additional actions would be needed by the public sector and/or private sector entities, beyond those described in the G20 roadmap (see Annex 3 of the current report), to facilitate the extension of RTGS operating hours and realise the benefits that could result from extended RTGS operating hours?

The proposed actions of Annex 3 seem adequate. It should be kept in mind, however, that extending operating hours without additional policy measures, in particular with respect to access to central bank accounts and related other services will yield only marginal benefits.

2.3 What benefits for cross-border payments other than speed do you perceive would accrue from an extension of RTGS operating hours? What additional domestic benefits for a jurisdiction do you perceive?

The settlement process for cross-border payments involves several steps. An important element is this chain is the extension of various forms of credit among the involved entities. Other things being equal, extended RTGS hours will generally reduce these credit risks by shortening duration of the exposures.

2.5 Which end state, out of the three identified or another one you may want to consider, do you believe strikes the best balance between improving cross-border payments and managing the associated challenges?

The only meaningful improvement is end state 3 (24/7 operations). Already today, 24/7 is the norm for most payments with RTGS payments being an outlier. Night-time closures of RTGS systems lead to inefficient and fragmented use of precious, high quality liquidity.

We are not convinced that the challenges outlined in Section V of the report are material. As indicated in Table A1 several RTGS systems are already operational for more than 23 hours per day. The central banks operating these systems should serve as role models for others.

Central banks that don't want to extend RTGS hours should - at a minimum - allow ancillary (cross-border) systems and their (eligible) participants to use central bank money during RTGS off-hours for settlement purposes.

2.8 Would your organisation make use of and/or benefit from extended RTGS operating hours?

Extended operating hours would definitely be used by Fnality participants. The Fnality Payment Systems (FnPSs) will be operational 24/7. Their participants fund and defund their settlement balances in every FnPS through the respective RTGS system (the aggregate settlement balances in an FnPS is always equal to the funds in the RTGS account of the FnPS). Thus, during RTGS system off hours, the FnPS will still settle with real-time finality, but the aggregate settlement balances of its participants will remain constant as funding and defunding is not possible. Extended RTGS operating hours will allow FnPS participants to adjust their desired balances in an FnPS during more hours which is important to reduce liquidity risk for FnPS participants.

2.9 How useful do you view the global settlement window as a concept for considering the aggregate implications of extensions to RTGS operating hours in individual jurisdictions? What alternatives or refinements, if any, would you propose in order to consider the aggregate implications of extensions to RTGS operating hours in individual jurisdictions?

The concept of a global settlement window is not the only possible option. As pointed out in the report the global settlement window is inherently short (five hours per day). A promising alternative are bilateral (or regional) windows between countries or currencies. In a world in which payment systems operate 24/7 such bilateral settlement channels provide more flexibility and lead to less concentration risk.

2.10 To what extent have the operational and risk considerations related to an extension of RTGS operating hours been adequately identified? What additional considerations would you consider relevant?

As mentioned above the challenges and most risks associated with extended RTGS hours identified in the report don’t seem to be material. In particular, the risks related to liquidity management and financial stability appear to be overstated. Liquidity management (overnight and intraday) is greatly facilitated, and risks reduced by extended RTGS hours. In addition, the implication that extended RTGS hours would make bank runs more likely seems utterly speculative (5.3.5).