HSBC Response to CPMI Consultation on Extending and Aligning Payment System Operating Hours for Cross-Border Payments

As a leading international bank, with the ambition to be the preferred international financial partner for our clients, HSBC strongly supports the G20 Roadmap for enhancing cross-border payments.

HSBC has provided extensive input to the IIF response to the CMPI Consultative Report and we strongly support the submission. I simply wanted to take this opportunity to highlight a number of core HSBC priorities related to this consultation, driven by our global position and scale, including processing USD15m equivalent of payments every second 24/7, and being one of the world's most significant contributors to SWIFT gpi tracking database of eligible international payments.

Scope Considerations

The scope of the Consultative Report and of the G20 initiative is extremely far reaching, as it looks to address cross border payment barriers across all of the payment sectors (wholesale, retail and remittance) payments. Often, as is the case with extending RTGS operating hours, any specific proposal is likely to have a different level of impact on each of the payment sectors.

For example, as we will describe further below, extending RTGS operating hours is likely to have the largest positive impact on wholesale payments (FIs or Large Corporates) sending high value payments between jurisdictions. For retail and remittance payments, positive impacts may be harder to identify, as the routing of their payments may not go through the RTGS on an individual basis. In the event that an individual transaction is routed through an RTGS, customer charges may be further increased due a rise in operational costs from the extension of operating hours.

When evaluating specific proposals within Building Blocks, we believe there is value in considering the impact of the proposed solution to cross-border payments at a payment sector level. This would support more informed prioritisation of specific proposals towards the end goal of achieving the G20 endorsed targets by 2027.

Bearing this in mind, our priorities with this consultation are:

1. There is no answer to RTGS hours operation that will be appropriate for all markets

- Our experience in more than 60 markets suggests there can be no one-size-fits-all approach to RTGS payments operation opening hours across CPMI member markets. Each country, or region (where relevant), would ideally undertake an assessment of current and future RTGS demand to confirm both the net benefits of extending hours for different payments sectors market, and the unique model for doing so that would best meet those needs.
- As part of these assessments countries or regions will need to consider a number of factors, including:

    - **Strategy for settling high and low value cross border payments**. RTGS operations will be required to settle high value, largely wholesale, payments, to support effective settlement risk management. Due to high value of payments involved and system requirements, routing individual payments through RTGS will always cost a premium. Any extension in operating hours will therefore benefit FIs and large corporates wanting to make payments over a wider time period than currently, or those retail and remittance customers who make individual payments outside of current hours, typically made using a Correspondent Bank, which are routed through an RTGS.

      For low value cross-border payments made by the retail and remittance sector, many markets now have other payment system options, rather than routing individual payments through a RTGS. These options include implementing Real Time / Instant / Faster Payment scheme interoperability, or enabling one leg out transactions.

      These options tend to be lower cost solutions than routing through an RTGS and in some instances already operate on a 24/7 basis. Furthermore, these options may be faster and easier to implement than extending RTGS operating hours and provide a greater contribution to achieving the G20 endorsed targets for these sectors. However, it should be noted that these payment systems may have liquidity and credit needs that will need to be addressed

- **Time zones and bilateral payment partners**
  The extent to which each country makes its own decision to extend RTGS operating hours and in which direction, will be dependent on its individual time zone and those of its key bilateral payment partners.
- **Innovation that supports the Cross Border Agenda**
  Consideration should also be given to the criticality the extension of RTGS operating hours to support other innovations aligned to both the cross border and / or domestic agenda, for example Payment vs Payment settlement, Stablecoin and Central Bank Digital Currencies.

2. Extending RTGS Operating hours alone will not be sufficient to realise the cross border payments benefits.

- Addressing other barriers outlined in the roadmap, such as: Service Levels (Building Block 3); AML / CFT Rules (Building Block 5); Data Frameworks (Building Block 6); and ISO20022 (Building Block 14) would all make incremental progress to achieving the G20 targets independent of extending RTGS operating hours. Without these changes any identified benefits of extending the opening hours will not be realised. While it is not feasible to take a 'nothing is agreed until everything is agreed' approach to the G20 Cross Border Payments Roadmap, we need to be very careful at the outset between what will be realistically achieved when we consider reforms in isolation, such as in this consultation.
- CPMI could require G20 markets to establish payments reform roadmaps that would include consideration of RTGS operating hours in conjunction with their strategy in relation to other building blocks that will be essential to liberating the benefits from extending RTGS operating hours.

3. Extending RTGS operating hours would be a significant reform with opportunity costs

- Any extension to RTGS operating hours will be highly complex and wide reaching across the industry, at a time when the systems are already undergoing fundamental updates to adopt ISO20022 messaging. In the coming years for any extension in RTGS opening hours to be successful, there is a need for pragmatic planning to gradually transition the ecosystem, focusing on areas of maximum opportunity first.
- While there may be a temptation to see extension of RTGS operating hours as a 'quick win', it could consume operational and political capital better spent on other building blocks that may have a more significant impact, such as those listed above and exploring options for Retail and Remittance cross-border payments. Therefore, it would be wise to leave those trade-offs to individual countries or regions, but to require reporting periods to the G20 on their plans to maintain momentum and peer pressure among G20 markets.

HSBC would welcome any opportunity to discuss the points raised above if I would be helpful for your process, as well as provide ongoing input to any further G20 Roadmap initiatives CPMI is leading.
We look forward to working with you over the coming months.