

December 31, 2023



Dr. Tara Rice
Secretary General
Committee on Payments and Market Infrastructures
Bank for International Settlements, Basel

By email to cpmi@bis.org

Dear Dr. Rice,

FPS interlinking: Linking fast payment systems across borders: considerations for governance and oversight

The Institute of International Finance (IIF) writes to respond on behalf of its members to the Committee on Payments and Market Infrastructures (CPMI's) [interim report](#) and consultation on the above topic.

The IIF continues to support the objectives of the G20 roadmap for enhancing cross-border payments (**Roadmap**) and broader payments program, including through comment letters, convening roundtables where IIF members can engage with the official sector, and through membership on the CPMI's Payments Interoperability and Extension (PIE) taskforce and the Financial Stability Board's (FSB's) Legal, Regulatory and Supervisory (LRS) taskforce.

On this specific topic, we welcome the CPMI's efforts to develop considerations supporting the important issues of governance and oversight for the interlinking of fast payment systems (FPS) in pursuit of the G20's objectives of greater speed, transparency and inclusiveness, and lower cost of cross-border payments.

We agree with the need to focus on governance and oversight arrangements around FPS interlinking, particularly as such arrangements can take significant time to establish and calibrate, and should ideally be put in place well in advance of implementation.

We also broadly support the considerations laid out by the CPMI and particularly welcome the interim report's acknowledgment of the importance of stakeholder involvement and consultation in governance arrangements. In this vein, we look forward to more detailed recommendations from the CPMI regarding the shape these governance arrangements should take, and would also ask that there be further public and/or targeted consultation before the CPMI's final report to the G20 due in 2024.

In **Annex 1**, we set out responses to the consultation questions in the paper. Our key points are as follows:

1. in general, we believe the **working definition** of governance is appropriate. As for the definition of governance arrangements, we see stakeholder representation mechanisms (whether through specific stakeholder advisory bodies or through Board representation and the like) as an essential part of governance arrangements;
2. from our members' perspective, the key aspects of governance and governance arrangements to be emphasised are **inclusiveness and neutrality**. Inclusiveness means that the perspectives of all stakeholders, but particularly of participants in the FPS being interlinked, should be represented in the governance arrangements, both at

the FPS level, but also directly at the interlinking arrangement level. Neutrality is concerned with ensuring the conflicts of interest that might arise from the operator/overseer functions are appropriately dealt with, and that the operator is empowered to make decisions in the best interests of the system's operation;

3. there may be scope to leverage existing oversight frameworks and/or arrangements in the creation of the governance arrangements for the interlinking arrangement, but in many cases, it will be necessary to “start from scratch” and **design fit-for-purpose governance arrangements** for the interlinking arrangement itself;
4. FPS governance arrangements will evolve over time and some considerations are more salient at the outset while others will be more salient during business as usual. It would be helpful to sequence the order in which they should be addressed to support the efficient development of an interlinking arrangement;
5. while compatible strategic and economic policy priorities are desirable among jurisdictions considering FPS interlinking, they should not be seen as a pre-condition or a necessary ongoing condition to the interlinking arrangement's existence;
6. there are other important drivers that can motivate the creation of linked systems, including business/technical factors including the critical need for a business case with commercial viability, regulatory pressure, and market demand for improvements like faster, cheaper cross-border payments. These drivers can shape the governance design for interlinking arrangements;
7. interlinking arrangements benefit most from a standards-based approach to drive interoperability and innovation. This allows diverse payment service providers to access the systems over time;
8. care should be taken to avoid blurring boundaries between the roles of the public and private sectors. While central banks play various roles in domestic retail payment systems, open and competitive systems enabled by the private sector often work best. Governance models should aim to avoid conflicts of interest;
9. the starting point should be that the jurisdiction where the arrangement is domiciled has oversight, rather than the overseers of the FPSs being interlinked;
10. in general, CPMI should avoid foreclosing reasonable commercial choices through its guidance; for example,
 - a. while future-proofing of governance arrangements is desirable, it should also be acknowledged that in a competitive environment speed may be important;
 - b. the possibility of focused FPS systems that are explicitly not designed to expand over time should not be ruled out; and
11. more generally, the possibility of multi-tier interlinking arrangements, which are not explicitly discussed in CPMI's 2022 [report](#) on interlinking payment systems and the role of application programming interfaces (**APIs**), should be open and should inform the design choices around governance and oversight arrangements. Such multi-tier arrangements could connect two different interlinking arrangements, or an interlinking arrangement with one or more FPSs.

While acknowledging some questions are addressed to central banks, in **Annex 2** we also provide some comments on these topics, which we hope are helpful. We would also remark that oversight arrangements have downstream implications for participants and end users, whom the IIF and its members represent or have as clients.

We would lastly observe that FPS interlinking is not always the best cross-border payment solution and may not enhance all corridors. The use case and context matter. Other solutions beyond FPS interlinking should be continually considered as well (as mentioned in CPMI's 2022 report). Private sector actors should be free to choose the best-value means of making cross-border payments, in the ultimate best interests of their users, and to avoid limiting

beneficial financial innovation through potentially more competitive service offerings. Interlinking itself also does not resolve currency conversion and liquidity requirements. Competitive foreign exchange and liquidity provision through existing market infrastructures helps align stakeholder incentives.

The IIF and its members stand ready to engage in additional discussions and consultations on these topics, or to clarify any aspect of our submission.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Jessica Renier', with a stylized, cursive script.

Jessica Renier
Managing Director, Digital Finance

Annex 1

Responses to consultation questions

Consultation question	IIF response
General questions (directed to all stakeholders)	
1. What are your views on the working definition of governance laid out in this report?	In general, we believe the working definition of governance is appropriate. The differentiation between governance arrangements (which seek to design an effective mechanism for setting objectives and strategies as well as monitoring performance in a specific situation) and a framework which establishes general principles which must be adapted to specific circumstances is one that we recognize. Governance arrangements should clearly identify governance functions and allocate responsibility for them, and set out rules or protocols of engagement. One objective should be to prevent duplicative or overlapping governance arrangements. In terms of the definition of governance arrangements in the interim report, we see stakeholder representation mechanisms (whether through specific stakeholder advisory bodies or through Board representation and the like) as an essential part of governance arrangements, and therefore an element to be added to the list of elements (a) – (h) set out in the commentary. We also agree that the role of advisory bodies can vary quite significantly as noted. An additional factor worth considering in governance arrangements in the interlinking model is the compatibility with the governance and / or form of engagement with the linked entities. In some cases, for instance the engagement with stakeholder groups beyond a small subset (e.g. the representatives of the linked entities themselves) could rely on the existing arrangements of the linked entities, although delegates of the linked entities could be responsible for representing these interests fully within the interlinking entity.
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	From our members' perspective, key aspects of governance and governance arrangements to be emphasised are inclusiveness and neutrality.

Consultation question	IIF response
resilient governance arrangement to be adopted by an interlinking arrangement?	Inclusiveness means that the perspectives of all stakeholders, but particularly of participants in the FPS being interlinked, should be represented in the governance arrangements, both at the FPS level, but also (where practicable) directly at the interlinking arrangement level. This is because choices made at the interlinking arrangement level will in many cases have significant downstream impacts on users / participants of the FPS being interlinked, particular if changes are required to systems or protocols at the FPS level to accommodate the interlinking arrangements or changes proposed to them. In many cases, representations to the FPS directly may come too late to influence the decision that may already have been taken or been well advanced. Any representative committee involved in governance functions should have representation of all linked entities and the ability to admit new participants. Neutrality is concerned with ensuring that the conflicts of interest that might arise from the operator/overseer functions are appropriately dealt with, and that the operator is empowered to make decisions in the best interests of the system's operation. All of the considerations are important; however, it would be helpful to sequence the order in which they should be addressed to support the efficient development of an interlinking arrangement, while maintaining the principles of inclusiveness and neutrality. As an interlinking arrangement develops, the governance, oversight and the decisions that need to be made will evolve. For example, the interim report identifies considerations 1-2 (strategic alignment, and objectives and vision) 'appear to create the favourable conditions for effective governance'. During an initial phase of developing effective governance, the situation should be looked at more broadly to determine the favorable conditions for successful interlinking, from which effective governance can be driven. Considerations during this initial phase will particularly consider the viability of a business case (consideration 5), as well as considerations 1-2. Interim inclusive and neutral governance and oversight may be needed to confirm these critical items. These key decisions should then drive much of the further interlinking design and governance and oversight, which is likely to

Consultation question	IIF response
	involve a governance and oversight structure for the development of the arrangement and potentially a slightly different version for business as usual. In terms of concrete features of governance to be prioritized, these could include joint objectives and project management, ownership of business case, monitoring of development and operational service level agreements (SLAs), and risk management. Again, it can be expected that there will be different versions for different stages / phases of development. Depending on legal form, the means by which inclusiveness could be accommodated could include: 1. one or more Board seats reserved for participant representatives from each FPS interlinked; 2. a Business Advisory Committee and/or Operations Advisory Committee, whose mandate(s) could extend to considering or recommending interconnection fees or cost recovery fees and surcharges; business operating hours; funding or prefunding arrangements; compensation fund arrangements, in each case including participant representatives from each FPS interlinked, together with end user representatives where appropriate; and 3. a Technical Advisory Committee whose mandate could extend to making recommendations to the interlinking arrangement around data standards and harmonization; application programming interfaces (APIs); timing of change implementation, etc. Any structure should be flexible to future proof for technical, commercial, or legal/regulatory aspects.
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.	General comment No matter what FPS interlinking model is chosen, a standards-based approach will maintain the longest-term, future proof arrangement which allows for interoperability and open access to payment service providers. This helps drive payments innovation and competition with respect to meeting the needs of end users. We feel that banks and other private sector payment service providers

Consultation question	IIF response
	should drive solutions while the public sector prioritizes oversight based on this standards-based approach. First sub-question There may be scope to leverage existing oversight frameworks and/or arrangements in the creation of the governance arrangements for the interlinking arrangement, but in many cases it will be necessary to “start from scratch” and design fit-for-purpose governance arrangements for the interlinking arrangement itself. Different frameworks will be needed due to the varying ownership structures and divisions of owner/operator responsibilities. For example, there may be models where the scheme owner and operator of the linked system are the same entity, and other models where the owner and operator are separate entities (e.g., where a central bank serves as the scheme owner, but outsources operations to a private sector third-party). In both scenarios, there will need to be clear rules outlining the responsibilities of the owner and operator in decision-making, accountability, and information flow. We note that the owner/operator relationship is not covered in detail in the interim report. To the extent possible, formal governance arrangements, including those dictated by considerations such as strategic alignment, objectives and vision, and the choice of legal form of the interlinking arrangement, should be appropriately adapted to accommodate user / participant representative functions. Second sub-question As is acknowledged by consideration 3 in the interim report (see question 8 below), basic features of governance arrangements for interlinking arrangements will depend on the legal form chosen (non-profit company or foundation, profit-making company, partnership with limited or unlimited liability, international organisation, incorporated or unincorporated association, unincorporated joint venture, etc.). In most cases, governance arrangements will be dictated to a greater or lesser extent by considerations such as strategic alignment, objectives and vision, and legal form.

Consultation question	IIF response
	The specific type of interlinking arrangement will also need to be considered in designing the right type of governance arrangements to put in place. For example, in a multilateral interlinking arrangement, designed to accommodate many FPS over time, there may be a need to depart from the suggestion above of one or more Board seats reserved for participants of each FPS. The hub and spoke model could leverage the governance of existing entities such as payments schemes which already operate support cross-border payments.
4. Are the 10 considerations learnt from the interaction with stakeholders comprehensive? Is anything important missing or not properly addressed?	Overall, the considerations seem fairly comprehensive, though in our members' view neutrality deserves mention in its own right. A few additional points could be considered: 1. The role of standard-setting bodies in facilitating interoperability through common technical standards or messaging formats. This could help enable links between FPS. 2. Risk management considerations: while referenced briefly, more detail on financial, operational, cyber and other risks posed by interlinking arrangements may warrant attention. Interlinking arrangements benefit most from a standards-based approach to drive interoperability and innovation. This observation also applies to risk management approaches. 3. Interaction with existing payment rails and migration considerations - how an interlinking arrangement coexists with or replaces existing cross-border payment channels. 4. End-user impacts - considerations around cost, speed, transparency and access improvements for end users enabled by interlinking. 5. Specific challenges for links between more and less mature FPS. 6. Key success factors and lessons learned from existing arrangements. As a general observation, we would also refer to our comments on the multi-tier model in our answer to question 8.
5. Is there any further guidance (beyond those listed in Annex 1) that would support safe and efficient FPS interlinking arrangements?	Additional guidance to support safe and efficient FPS interlinking arrangements could focus on the following areas:

Consultation question	IIF response
	1. Risk-based oversight principles. Oversight frameworks should be proportional to the risks posed by specific interlinking arrangements. Arrangements with greater risks due to factors like transaction values, settlement models, etc. may warrant more oversight, while simpler arrangements could follow more basic guidelines. 2. Recognition of existing oversight. Where participants in an interlinking arrangement already meet compliance standards and oversight from other authorities, duplicative oversight should be avoided. Allowing for recognition of oversight by other competent bodies promotes efficiency. 3. Technology-neutral governance principles. Governance models should aim to be flexible and principles-based to foster innovation. Prescriptive, technology-specific rules may quickly become outdated. High-level risk management expectations can allow room for new technologies and processes. 4. Coexistence with other systems. Guidance should ensure interlinking arrangements can coexist alongside domestic systems and other cross-border payment channels. Interlinking should not impede ongoing payment system innovation and competition. We also offer these additional perspectives: 1. FPS interlinking is not always the best cross-border payment solution and may not enhance all corridors. The use case and context matter. Other solutions beyond interlinking should be continually considered as well. 2. Interlinking arrangements benefit most from a standards-based approach to drive interoperability and innovation. This allows diverse payment service providers to access the systems over time. 3. While central banks play various roles in domestic retail payments systems, open and competitive systems enabled by the private sector often work best. Governance models should aim to avoid conflicts of interest.

Consultation question	IIF response
	4. Interlinking itself does not resolve currency conversion and liquidity requirements. Competitive foreign exchange and liquidity provision through existing market infrastructures helps align stakeholder incentives. Further public-private dialogue on the nuances and complexities is still needed on FPS interlinking for cross-border payments.
Questions on single considerations (directed to all stakeholders)	
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?	While compatible strategic and economic policy priorities are certainly desirable among jurisdictions considering FPS interlinking, they should not be seen as a pre-condition or a necessary ongoing condition to the interlinking arrangement's existence. In a democratic society, government and central bank priorities will change over time, to reflect evolving political orientations and policy settings. Accordingly, interlinking of FPS systems should be seen as a technical step forward, and one with an important trade component, without being hostage to changes in the broader political economic environment. There may be business/technical drivers, regulatory pressure, and/or market demand (such as faster, cheaper, safer cross-border payments) that encourage the creation of a linked system. The converse is also true, and the necessity of a viable business case for the specific FPS use cases in question, at the outset and on an ongoing basis, is a key consideration. Similarly, FPS should be seen as candidates for interlinking, notwithstanding the diverse roles of central banks with regard to the constituent FPS concerned. For example, a central bank may be the operator of one FPS, another may be the overseer (as payment system overseer) of a second; a third may be the owner, but not the operator, of another FPS; a fourth central bank may not be the specialist payment system regulator but may oversee banks that may be participants in a commercially-run FPS; a fifth central bank may retain residual currency policy control but otherwise not be directly concerned in the operation or regulation of the FPS or its participants. All of these FPS should be seen as candidates for interlinking.

Consultation question	IIF response
	The governance arrangements need to be fit for purpose and tailored to the specifics of the interlinking arrangements (e.g., legal form) but also of the FPSs being interlinked. This means the role of the central banks of the jurisdictions concerned should not be specified <i>ex ante</i> for all cases, but must depend on the more-or-less central role played by those central banks in the particular setting. Central banks will typically, but not always, be involved in oversight of FPSs in its jurisdiction. In the case of an independent commercial FPS, it may not be appropriate, from a conflicts and accountability perspective, for the central bank to have a Board seat on the FPS, particularly if it also oversees the FPS as a regulated entity. As such, there should not be an expectation that the central bank will always have a Board seat on the interlinking arrangement, which may also be a commercial venture.
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 think that identifying and defining a shared long-term vision will necessarily involve addressing certain guiding principles, such as the three guiding principles that CPMI has chosen to highlight. This should be considered as part of the initial phase of development of any FPS interlinking arrangement. We would suggest that the CPMI might usefully do more work on identifying possible guiding principles for FPS interlinking arrangements, beyond the three principles that are mentioned in the paper. We note that the 2022 CPMI report on interlinking arrangements and the role of APIs did not contain a discussion of such guiding principles. For example, in addition to the guiding principles noted, we would add incentivizing private sector participation to this list. Models that are funded and owned by the public sector (and thereby may operate as a not-for-profit) may need to have a principle on incentivizing private sector participation to promote adoption, encourage innovation, and ensure long-term viability of the linked system. Guiding principles could be influenced by commercial objectives. This will have a determining influence on the other objectives (e.g., inclusivity, reach, etc.). In this regard, a level playing field should be established where any public sector operator or catalyst follows cost-recovery objectives so as to not undercut the

Consultation question	IIF response
	market, especially for-profit private sector operators. Public subsidy does not create lasting incentives for private-sector innovation and investment. There may be others that particular interlinking arrangements choose to highlight, and, particularly for regional arrangements, they may link to existing regional initiatives and objectives including deeper economic integration or increased cross-border trade. It would be particularly desirable for FPS interlinking arrangements to decide “early on” if they are in principle bounded in geographic scope or open to interlinking with FPS, or with FPS interlinking arrangements, in other regions. At the same time, any arrangement needs to be business viable and support a policy objective beyond simply geographic scope. We would also state that if interlinking of FPS generally delivers benefits in terms of economic efficiencies and reduction of frictions, a certain level of flexibility, or indeed of vagueness, in the long-term objectives of the interlinking arrangement should be tolerated. Such flexibility or vagueness may be particularly valuable if the arrangement may link countries with very different political systems or levels of economic development.
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?	Yes, we agree that the ownership structure and the legal form of the interlinking arrangement are key design choices in the governance of an FPS interlinking arrangement. As we say in answer to question 3 above, basic features of governance arrangements for interlinking arrangements will clearly depend on the legal form chosen (non-profit company or foundation, profit-making company, partnership with limited or unlimited liability, international organisation, incorporated or unincorporated association, unincorporated joint venture, etc.). In most cases, governance arrangements will be largely or to some extent be dictated by such legal form, as well as by considerations including strategic alignment, objectives and vision. The legal form will also be strongly influenced by the desired ownership structure, although similar levels of economic interest can be expressed in various legal shapes (e.g. through company, partnership or joint venture shares,

Consultation question	IIF response
	through other participation interests such as an interest in a variable interest entity, etc.). A third important design choice is determining whether the scheme/rulebook owner is the same or a separate entity from the system operator. These two different owner/operator relationships will require different forms of governance to ensure the timely flow of information (e.g., between the owner and the operator, to the Board, to supervisors and overseers, etc.) and a clear delineation of authority for decision-making. There are other design choices that may be important for the governance of an FPS interlinking arrangement, such as: • The location of the seat of the interlinking arrangement – this may give more or fewer choices in terms of legal form and ownership structure. It may also influence the governance arrangements strongly (e.g., a German public company normally requires a business board and a supervisory board, etc.). • Whether the interlinking arrangement is intended to directly link FPS, or is a “meta” interlinking arrangement that is intended to link interlinking arrangements together in a multi-tier arrangement. In such an arrangement, there may be less scope or ability to individually represent participants in the individual FPS, simply due to the number of FPS, and participants, involved.
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?	Some suggestions for how the governance of a cross-border interlinking arrangement could ensure flexibility, scalability and openness include: 1. adopting a membership principle based on rights and obligations to enable accession of new participants; 2. reposing the right to admit and retire members in a governing body (such as the Board in the case of an incorporated interlinking arrangement);

Consultation question	IIF response
	3. clear and scalable contractual arrangements, e.g. the linked entity contracts only with the interlinking entity and by that with all others, thus avoiding a network of bilateral agreements; 4. allowing for proportional voting or dynamic voting rights that can change over time as the network expands; 5. building in processes for regular governance reviews and amendments to bylaws/operating rules; 6. using an open and transparent stakeholder consultation process for any major governance changes; 7. instituting clear and fair criteria for admitting new participants/corridors that align with the vision and avoiding criteria that could hamper expansion; 8. designing legal structures and agreements that allow for effective dispute resolution and as far as possible apply predictably across jurisdictions; 9. building in flexibility (for example, in shareholder agreements or foundation charters) for ownership changes, e.g. by not cementing in place ‘golden shares’ or special structures that are hard to change; 10. planning for various funding/capital structures; and 11. establishing working groups on expansion planning and innovation to keep the governance forward-looking. All that said, CPMI guidance should also acknowledge that a focused and limited FPS that does not have an expansive vision but wishes to connect two or three FPSs is also viable. This may be particularly relevant to a key ‘pair’ of economies that are closely intertwined and have a high degree of existing economic or political integration. Such an interlinking arrangement might not expand, but might become a member of a broader arrangement, in a multi-tier arrangement. We would also comment that, while there is much to be said for avoiding stranded investments, there are also costs associated with future-proofing arrangements. Sometimes, in a competitive environment, there may be

Consultation question	IIF response
	significant advantages in starting to build while the overall plan is still under development. CPMI should not foreclose or pre-empt with its guidance the key role of business judgment in this regard. We would also wish to put on record that by “inclusive,” we understand that a broad range of stakeholder perspectives (including, where possible, those of FPS participants) are reflected in the governance arrangements of the interlinking arrangement. The suggestion in the interim report that inclusiveness is linked to the issue of one FPS, one vote, is distinct from our understanding. The question of voting power and voting rights should be one for FPSs themselves to determine, in light of the various economic and political circumstances at hand. CPMI should not, in our view, suggest or imply that other arrangements are not, <i>ex ante</i>, inclusive.
10. Consideration 5. What are the most important ways in which the governance can help make the FPS interlinking arrangement commercially viable/sustainable?	Governance arrangements can provide for the setting of rules for the exchange of fees between linked entities (e.g., fee levels, method for netting reciprocity, etc.) and how the coordinating entity and its operations are to be paid for. In addition, it can help to enforce the SLAs which provide a common commercial proposition that may be attractive to end users. Coordination of fees for or providing value-added services such as FX marketplaces, risk management tools, etc may be another function. A sustainable business model is important for the viability of a cross-border FPS interlinking arrangement. This can be accomplished through expertise in board composition, competitive pricing models, expanding services and geographies, and efficient operations. Public sector support may be warranted initially to address market gaps, but the governance should steer the arrangement toward self-sufficiency over time. At the same time, the expansion of the FPS arrangement should avoid hindering private sector competition and investment. The governance can prevent crowding out through open interoperability standards, transparency, gradual rollout phases, fair pricing, avoiding unnecessary vertical expansion, and ongoing industry dialogue. Caps on ownership consolidation, establishing

Consultation question	IIF response
	firewalls, and limiting subsidies only to address clear market failures can also help safeguard competition. We agree with the reported stakeholder views, that agreement on the governance for the pricing model is quite important. We would say it is critical, and for this reason we mention in our answer to question 2 a Business Advisory Committee whose mandate could extend to considering or recommending interconnection fees or cost recovery fees and surcharges; business operating hours; funding or prefunding arrangements; compensation fund, etc. Any benchmarks that may be set for the interlinking arrangements should avoid limiting the choices of financial institutions and payment service providers that may be participants in the FPSs concerned. It may be undesirable for central banks in their role as regulators or overseers to push financial institutions and payment service providers to support interlinking arrangements they may be promoting, particularly if that distorts the competitive dynamics of that market. Private sector actors should be free to choose the best-value means of making cross-border payments, in the ultimate best interests of their users, and to avoid limiting beneficial financial innovation through novel or more competitive service offerings.
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?	Please refer to our answer to question concerning our key suggestions around Board representation, a Business Advisory Committee, and a Technical Advisory Committee. Some other governance mechanisms for drawing in stakeholder feedback, or for resolving disputes, may include: 1. conduct public or targeted consultations on proposed changes and give stakeholders opportunities to comment; 2. hold open forums for stakeholders to voice views and give feedback; 3. create working groups of stakeholders to study issues in-depth and make recommendations;

Consultation question	IIF response
	4. survey stakeholder groups when major decisions are upcoming to gather perspectives; 5. publish Board meeting minutes and decisions to keep stakeholders informed; 6. set up an ombudsman or mediator role to help resolve stakeholder conflicts; 7. develop clear and transparent guidelines for decision escalation and appeal processes; 8. provide stakeholders early notice of proposed changes so they have time to respond; and 9. utilize videoconferencing and virtual meeting tools to facilitate remote stakeholder participation. In terms of mechanisms specifically to preserve agility while being inclusive, some would include: 1. defined levels of Board approval required based on the significance of decisions; 2. emergency powers to make quick decisions or temporary changes, but subject to stakeholder approval or consultation and possible reversal; and 3. an appropriate degree of management autonomy, within overall settings designed by the Board/other stakeholder processes.

Annex 2

Comments on Considerations 7 - 10

While acknowledging some questions are directed at central banks, we also provide some comments on these topics, which we trust are helpful.

We would also remark that oversight arrangements necessarily have downstream implications for participants and end users, whom the IIF and its members represent or have as clients.

Questions on single considerations (directed to central banks)	IIF comments
12. Consideration 7. What are the most relevant factors to assess the risk profile of such an arrangement (eg type of services, number of jurisdictions, technical complexity)? How can the oversight framework be designed in order to offer sufficient flexibility, avoiding a one-size-fits all approach?	First sub-question We welcome CPMI’s emphasis on a pragmatic and proportionate approach, guided by a risk assessment, and would suggest the guidance could also reference the principle of “same risk, same regulatory outcome” and the consideration of technical neutrality. We would also table the factors of scale, and of the degree of legal/regulatory differences or divergences as both relevant to a risk assessment. Second sub-question Using a risk-based proportional approach will go a long way to avoiding a one-size-fits-all. To offer further flexibility in oversight, the following could be useful: 1. conducting gap analyses early to understand technical, legal, regulatory differences, in order to avoid duplicative and possibly contradictory regulation; 2. establishing cooperative oversight between regulators and central banks; bilateral cooperation may be easier to start; 3. implementing oversight in stages, with oversight gradually enhanced as risk profile increases with greater scale and complexity; 4. maintaining ongoing dialogue between regulators on emerging risks and oversight needs; and 5. periodically reevaluating the risk profile and adjusting oversight as needed.

Questions on single considerations (directed to central banks)	IIF comments
13. Consideration 8. How can the boundaries of the oversight expectations of the interlinking arrangement be set (ie distinct from oversight on interlinked systems)? How can proportionality be ensured?	First sub-question Defining the scope is critical to setting clear oversight expectations and boundaries for the interlinking arrangement. Here are some key aspects to consider: 1. technical and operational risks: resilience, interoperability, reconciliation, cybersecurity, incident response; 2. settlement and financial risks: liquidity, credit risks, settlement processes; and 3. governance and policy: participation requirements, legal agreements, data standards, contingency planning. Clearly documenting these aspects will distinguish the scope of the arrangement from the individual FPS and allows oversight responsibilities to be clearly assigned. Second sub-question The risk assessment mentioned in consideration 7 will be crucial in ensuring proportionality. Other factors which may assist include: 1. conducting periodic reviews of the risk assessment periodically, and when major changes occur, to reevaluate the risk profile; 2. scaling oversight activities accordingly; and 3. phasing-in oversight over time, starting with principles addressing major risks, extending to other relevant principles over time as scale and complexity increases.
14. Consideration 9. How can cooperation among overseers be implemented? How can it vary by form, degree of formalisation and intensity?	Rather than directly answer the questions, we would observe that the question seems to assume that more than one oversight body would be involved in overseeing an interlinking arrangement between FPS. While this might seem a natural assumption, we think the starting point should be that the jurisdiction where the interlinking arrangement is domiciled in a legal sense should be the jurisdiction with oversight of the arrangement. This is not to say that central banks, and/or supervisors of banks and PSPs that are participants in the

Questions on single considerations (directed to central banks)	IIF comments
	interlinking FPSs, do not have a stake in those processes. But absent the interlinking arrangement being systemically important in its own right, the starting point should be single, not multiple, oversight bodies, perhaps with consultation arrangements with other overseers as appropriate.
15. Consideration 10. Do you see any challenges if overseers are being involved during the design and implementation phase of an arrangement's governance? If so, which ones?	Having overseers involved during the design and implementation phase of an arrangement's governance may introduce an undesirable blurring of the lines of responsibility between a private-sector FPS interlinking arrangement with the public sector. We would also, in view of the suggestion of "a cooperative oversight arrangement so that each of the participating central banks involved is responsible for the oversight of the interlinking arrangement," repeat our comment in answer to question 14 that the starting point should be that the jurisdiction where the interlinking arrangement is domiciled in a legal sense should be the jurisdiction with oversight of the arrangement. Moreover, if more than one authority is to be involved in oversight belonging to different jurisdictions, it is undesirable if they are both in the lead on all topics. It would be preferable for one to be designated "lead" or "home" overseer and the other as downstream or "host" overseer, or for there to be a functional allocation of roles. This would reduce duplication of effort as well as the potential for disputes to arise between overseers. Also, for an interlinking arrangement designed to operate as the hub for multiple jurisdictions, giving each "client" jurisdiction the same oversight role as the overseer of the arrangement risks a multiplicity and blurring of reporting lines and responsibilities.