

January 13, 2022

Japanese Bankers Association

JBA Comments on “Extending and aligning payment
system operating hours for cross-border payments”

We, the Japanese Bankers Association (JBA), appreciate the opportunity to provide comments on “Extending and aligning payment system operating hours for cross-border payments”, dated November 18, 2021.

We hope that our comments will contribute to further discussions.

Comments to the questions in the consultative report *Extending and aligning payment system operating hours for cross-border payments*

Questions for consultation	Our comments
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.	✓ This is dependent on the situation. Improving the speed of cross-border payments requires an extension of operating hours of not only RTGS systems but also each participant. Given that RTGS systems handle a relatively high volume payments, it is critical to take companies' needs and liquidity into consideration. If many companies do not want to receive funds outside of current operating hours, the liquidity would be limited. In terms of interbank funding, it is expected that the extension of RTGS systems' operating hours would enable those foreign exchange (FX) transactions that cannot be settled at Value Today due to the time zone difference and thus would be settled on the next business day at Value Today. If, however, the improvement in speed is realized by settling FX transactions on T+0, the impact on the Payment-Versus-Payment (PVP) mechanism and liquidity needs to be carefully assessed. ✓ The G20 has set the following speed targets: By the end of 2027, 75% of cross-border payments are to be credited/to provide availability of funds for the recipient within one hour of payment initiation, and the remainder should be credited within one business day of payment initiation. We need to confirm whether the number of those cross-border payments received outside the operating hours or overnight and processed next business day exceeds 25% of total cross-border payments (in our country, it would be unlikely that the extension of RTGS systems' operating hours can contribute to achieving the speed target). ✓ Since RTGS systems in domestic have already covered the global settlement window, the improvement of speed expected from the extension of RTGS systems' operating hours would be limited.
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 realize the benefits that could result from extended RTGS operating hours?	✓ The additional action would be to expand the coverage of participants who will benefit from extended RTGS operating hours. Unless operating hours of other relevant payment systems (e.g. bond market) are also extended to align with RTGS operating hours, the benefits of extending RTGS systems' operating hours would not be realised. ✓ It is also necessary to clarify the purposes of extending RTGS systems' operating hours and challenges associated with such an extension.
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?	✓ Provided that the coverage of participants is expanded, we expect that the extension of RTGS operating hours will expand FX transactions and also enable banks to take care of settlement delays caused by, for example, participant's system failures or operational errors. ✓ While Japan has already extended the settlement of JGBs to 21:00, activities in the evening primarily comprise of the recovery of transactions that failed during the day. This indicates that the extension of operating hours has not contributed to stimulating transactions. If the settlement window expands, the number of transactions might increase. However, there is not a particularly strong demand from customers for expanding the settlement window. Collateralised transactions, for which customers are increasingly seeking advice, do not involve fund transfer, and hence the benefits of the extension of RTGS operating hours would be limited.
4. How well do the three identified end states capture key scenarios that individual central banks/RTGS system operators should consider as they assess current RTGS operating hours and plan for the future? What additional end states or refinements to the end states would you suggest?	End states should be considered from a broader perspective, rather than focusing solely on the RTGS systems' operating hours. Every identified end state will impose additional burdens on private-sector entities and the public-sector. For example, the extension of RTGS operating hours will call for additional resources or development of payment systems.
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?	✓ We think that end state 1 strikes the best balance between potential benefits and additional burdens. ✓ In order to realise real-time settlement by extending operating hours, it is critical to first determine how we should consider the concept of a global settlement window, before discussing the three end states. In addition, concept of each country's payment systems, including that of FX transactions, also needs to be considered.
6. If the RTGS system in your jurisdiction has not yet reached the end state signaled in the previous question, what time horizon (number of years from now) would you envision for reaching it?	N/A
7. As a result of end state 3, which involves 24/7 RTGS operating hours, do you anticipate demand for 24/7 operations of RTGS systems in the future? If so, what do you expect to be the main drivers and over what time horizon do you expect this to happen?	✓ Given actual activities currently conducted during the period outside of the core hours, we think that there is no demand for 24/7 operations of RTGS systems at the moment. ✓ 24/7 operations are meaningful only if recipients also have a framework for monitoring funds received and allocating such funds to next transactions on a 24/7 basis. Therefore, we should consider whether there are such needs and framework in discussing the extension of operating hours of settlement systems. With regard to the question on time horizon, it is unlikely that demand for 24/7 operations of RTGS systems will spread widely across societies at least within the G20's timeframe for enhancing cross-border payments.

Questions for consultation	Our comments
8. Would your organisation make use of and/or benefit from extended RTGS operating hours?	Considering comments from customers on the extensions of operating hours of payment systems implemented in the past, we believe that in our country, there are not sufficient needs for outward payment requests after business hours and also not sufficient needs (benefits) for accelerating receipts of inward payment.
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?	✓ In order to realise real-time settlement by extending operating hours, it is critical to first determine how we should consider the concept of a global settlement window. In addition, concept of each country's payment systems, including that of FX transactions, also needs to be considered. Based on this, feasibility of expanding the global settlement window (i.e. to extend operating hours) should be considered. Unless there is demand from markets and societies for using funds received overnight or during weekends/public holidays and an initiative to build infrastructures for supporting such demand other than settlement systems, benefits would not outweigh huge investments in extending RTGS operating hours. We believe that the concept of a global settlement window of RTGS systems is not important for payments that do not involve FX transactions. ✓ The use case in Box 3 (cross-border payment from the euro area to Indonesia) should clarify the assumptions regarding FX transactions and bank account structures. The use case in Box 3 should also discuss for what purposes companies receiving funds can use them.
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?	Analysis from business perspectives, system development and required human resources (back-office) should also be considered.
11. What would you identify as the top five considerations related to an extension of RTGS operating hours in your preferred scenario (Q5)?	• Costs (e.g. human resources, IT systems) • Customers' needs • Interfacing with other relevant settlement systems • Establishing a programme in response to, or guidelines regarding, the extension of RTGS operating hours • Feasibility
12. To what extent do the relevant considerations differ substantially depending on the end state being considered?	Compared to end state 1, end state 2 and end state 3 are difficult in terms of their costs and feasibility.
13. For the top five considerations that you identified in Q11, what mitigation measures could be taken to address them?	There are no mitigation measures that could be taken immediately.
14. In your view, to what extent will the above measures require coordinated action by industry participants and/or support/guidance from authorities, such as central banks, standard-setting bodies and supervisors (as opposed to actions by individual stakeholders)?	As the extension of RTGS systems' operating hours will have diverse effects, support/guidance from central banks/supervisors is essential. Even with such support/guidance, it would not be feasible unless the coverage of RTGS system participants is expanded because the costs for system investments and human resources (back office and system operation) will be enormous.
15. If you are a stakeholder of an RTGS system that has extended its operating hours in the recent past, what were the key lessons learnt?	✓ Understanding customer needs is important. Responding to the extension of RTGS systems' operating hours requires investments in IT systems and securing human resources. If there are no customer needs, such an extension will only increase burdens of maintaining the systems and back-office structure. Furthermore, extending RTGS operating hours does not drive demand for receiving funds overnight. We expect that many companies do not have strong needs for settling payments overnight at additional cost. ✓ According to a questionnaire survey on cross-border yen-denominated settlement services for non-financial entities conducted by the central bank in the past, Japanese financial institutions and non-financial entities are conservative in conducting overnight payments due to labor and management-related concerns. ✓ The extension of the settlement system's operating hours alone will not increase the use by users. In order to eliminate labor and management concerns arising from overnight payment operations of financial institutions and non-financial firms, this issue needs to be considered in conjunction with the initiatives for implementing full automation and straight-through processing. In such a consideration, ensuring liquidity and business feasibility would be a critical element. In addition, a market infrastructure that enables funding during the extended operating hours need to be built.