CPMI Secretariat
Via email: cpmi@bis.org

30 September 2022

Dear CPMI Secretariat,

**Re: Consultative Report - Facilitating increased adoption of payment versus payment (PvP)**

Thank you for the opportunity to provide input on your July 2022 *Consultative Report - Facilitating increased adoption of payment versus payment (PvP)* (the "**Report**"). We are greatly appreciative of the CPMI's efforts to ensure the inclusion of industry views on the important topic of expanding the use of PvP in FX settlements and contribute the following comments in response to the questions asked.

**In Section 2:**

**1. Do you agree with the analysis of the causes of non-PvP settlement?**

Yes, we agree with the causes outlined in the Report. PvP capabilities need to be available for a particular FX product in a particular currency pair for trades of that pair/product to be settled PvP. As pointed out in the Report, some currencies are unsupported by existing PvP arrangements, often those of emerging market countries, making it difficult or impossible for them to be settled PvP. Additionally, even if currencies and products are supported by a PvP service, one or both counterparties to the FX trade being settled may not have access to that PvP service. PvP services that are as broad as possible in their scope and accessibility, or distinct but complementary services that, between them, cover more of the FX market, would therefore be beneficial.

Furthermore, it makes sense that PvP capabilities also need to be fit for purpose. As pointed out in the Report, market participants may need to move funds outside the operating window of existing PvP arrangements; a service offered may not match the service needed. When market participants must choose between mitigating settlement risk or observing other important commercial or operational needs, it appears that settling PvP may not always be the obvious choice. Ideally, therefore, PvP offerings, to be attractive and widely used, should be flexible enough to suit a range of market participants' requirements or expectations. For example, if a firm is seeking to settle PvP on a weekend, or multiple times a day, a service should exist to offer that functionality. Relatedly, we also agree that PvP arrangements must be efficient, and not add costs or challenges that may counter or outweigh the benefits. The easier to use and more efficient a system is, the more likely it is that it will be adopted.

Another factor to consider in terms of what may have caused a lack of growth in PvP settlement to date is that despite notable efforts being made by the BCBS, GFXC (Global Code), industry trade bodies, and individual central banks to promote greater use of PvP settlement, since the advent of the primary incumbent solution no obvious globally implementable alternatives appear to have emerged or been identified. With the CPMI FX Workstream's present efforts, we have no doubt this will change. With so many concrete solutions under development there is great promise for PvP capabilities to become more widespread; this will bring with it tremendous risk mitigation benefits as well as, potentially, streamlined processes and efficiency gains.

A key to success, we believe, is that a big picture view and coordinated approach should be taken by the public sector in laying an effective foundation for increased availability and use of PvP. For example, internationally agreed standards between central banks for how their accounts can be used by banks and market infrastructure to help facilitate safe and efficient cross-border payments and FX settlements,[1] and consistency in approach to holdings of central bank money by banks abroad and to settlement finality[2]. If a PvP solution is developed that is incompatible between central banks in different jurisdictions, this will impact the usefulness and scalability of the solution.

**2. Do you find that, for your market segments, some causes are more important than others? Please explain.**

We do not have any specific insights to add for this question. However, for currencies where there is currently no PvP service, lack of availability is more likely the challenge, whilst for currency pairs where there is, we would expect reluctance may stem from suitability, cost, or efficiency issues.

**3. In which currency pairs or products do you find that non-PvP settlement is increasing?**

Product-wise, we see PvP capabilities as still lacking for same-day settlement. In terms of currencies, we refer back to the findings from the December 2019 BIS Quarterly Review[3] noting the growth of trading in currencies not eligible for CLS, many of which are those of emerging market economies (EMEs) for which there is also no other PvP settlement solution. We concur with the Review's conclusion that it may be necessary to widen the availability of PvP solutions to include EME currencies and also make the obvious point that in order for PvP settlement to occur for an FX trade, both currencies in the traded pair need to be settleable via the PvP solution.

**<u>In Section 3:</u>**

**4. Do you agree with how the proposals for new solutions could increase the adoption of PvP?**

By offering new and expanded capabilities beyond present-day solutions the proposals have, in principle, the potential to enable a great deal more use of PvP settlement. However, given the causes for not settling PvP discussed earlier, it is worth noting that successful services will also need to incorporate a suitable amount of liquidity efficiency and achieve some amount of network effect. This can only happen if a sufficient number of banks in a certain market segment participate in the same solution and/or a workable mechanism for interoperability or interconnectivity between solutions is possible. We anticipate that market forces will likely result in consolidation around a few initiatives, each with their own defined target market (be it certain currencies, or FX products, or a combination of both).

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[1] In this regard, we note the complementary work being done by the CPMI on improving access to payment systems for cross-border payments (G20/FSB Roadmap Building Block 10).
[2] As noted on page 25 of the Report.
[3] https://www.bis.org/publ/qtrpdf/r_qt1912x.htm "FX settlement risk remains significant".

With regard to PvP solutions integrating features such as trade matching and/or netting, our view is that any such functions should be made available in a way such that they are indifferent to the ultimate means of settlement. We could potentially see a phased migration towards PvP being designed by financial institutions that incorporates the necessary 'specialized' steps to optimize the efficiency of the end-to-end workflows.

**5. Do you find that these new solutions, together, if launched successfully, can mitigate FX settlement risk? Please explain.**

Yes, there is potential for the proposed new solutions to complement existing solutions and enable further opportunities to mitigate settlement risk. It is widely recognised that, currently, there are some currency pairs that are not PvP-settleable. There may be various reasons why such a service is not able to be offered by incumbent PvP service providers. Some of those hurdles, under new models, may not be implicated or may be overcome, which could mean other services could potentially provide additional PvP services to 'fill the gap' of deliverable FX trades that cannot yet be PvP settled.

Not all solutions, however, necessarily need to be deployed *together*: activation of several or even one could potentially help with expanding PvP settlement to some extent by enabling different methods to PvP settle which may better suit the specific goals of market participants (for example in terms of currencies, products, or desired outcomes). As mentioned, achieving sufficient network effect can only happen if enough banks in a certain market segment participate in the same solution and/or there is a workable mechanism of interoperability or interconnectivity established between solutions.

Furthermore, if a multitude of solutions are deployed together, this could increase fragmentation and negatively impact liquidity. We expect PvP users will select the solution that best fits their needs and believe successful solutions will need to offer safe and efficient settlement observant with the PFMIs, involving central bank money, incorporating settlement finality protections, and able to accommodate interoperability.

**<u>In Section 4:</u>**

**6. Do you agree with the analysis of the barriers to increased adoption of PvP?**

In terms of barriers related to use of central bank funds in PvP settlement, we believe the industry could benefit from a more consistent approach as between countries, at the Central Bank level, to the usage of central bank money for cross-border settlement arrangements. PvP cross-border arrangements can function best where the applicable rules and regulations are consistent jurisdiction-by-jurisdiction: the absence of such consistency represents a barrier in its own right. A key example is access to central bank money by foreign payment service providers (PSPs). Whilst central banks may be willing for foreign banks to hold central bank money in the form of cash away from their jurisdictions, as highlighted in the Report the same foreign PSPs cannot directly hold central bank money in electronic form unless they are domiciled in that jurisdiction, thereby requiring access to central bank funding via incumbent local institutions.[4] Beyond resulting in a potential barrier to the foreign PSP servicing the relevant jurisdiction, this could also have the effect of restricting competition. Interestingly, a future world of wholesale CBDC

[4] Page 26 of the Report.

cross-border settlement may cause this barrier to need to be examined in further detail since, ideally, one would want the holder of a CBDC arising from a cross-border transaction to be identified directly on the ledger as opposed to indirectly via another entity.

As suggested in the Report[5], we believe that central banks should holistically evaluate the barriers, benefits, and risks of improving access to central bank accounts and services for PvP providers, including foreign PSPs, and be open-minded to fresh approaches to account structures across jurisdictions that do not introduce new risk but may spur innovation and improvement in cross-border settlement capabilities. As noted in the Report, such advancements could, in turn, lower funding costs and reduce settlement risk in more markets.[6]

**7. Which barriers do you find most significant, and do you observe any additional barriers that are not identified in the report? Please explain with specific reference to individual barriers.**

Please see our response to question 6 above.

**8. Do you agree with the possible roles for private and public sector stakeholders in addressing the barriers?**

We agree with the roles outlined in the Report for the private and public sector. Given the challenges that will likely be inherent in conventions around an international value date (whilst still ensuring local value dates have a defined start and end time - key for 24x7 domestic instant payment systems), adapting and aligning operating hours, and integrating interoperability between legacy and emerging systems, private sector input from both PvP users and PvP solution providers will be key to the exploratory dialogue.

The public sector certainly has a role to play in tackling regulatory barriers and creating regulatory incentives for PvP settlement, as well as assessing the prevalence of central bank operational barriers. We reiterate, in this regard, the importance of ensuring as homogenous an approach as possible by central banks, promoting for example shared, aligned, and standardised approaches across the world, informed by global discussion forums. The CPMI FX Workstream is an excellent example of such an initiative, and we encourage the continued inclusion of private sector input, as appropriate, in this forum. Given the importance of fresh perspectives in the push for any industry change, it is in our view vital that new solution providers such as those named in the Report be encouraged to contribute their ideas and have a voice in the ongoing discourse around increasing adoption of PvP settlement.

**9. Do you find that the private sector could take on other roles in facilitating increased adoption of PvP? Please explain.**

Please see our response to the question 10 below.

**10. How could the public and private sectors work together to take this forward? Please explain and suggest any practical actions that could be taken by existing industry bodies.**

[5] Page 26 of the Report.
[6] Page 27 of the Report.

In addition to public forums such as the CPMI including suitably inclusive representation and views from the industry in its own outreach and discussions, public/private sector groups such as local FX Committees could also aim to ensure outside insights and exposure to new and emerging PvP offerings are sought out. This could mean looking at existing governance structures, broadening representation on relevant committees or sub-committees and/or more opportunities for guest presentations. Acknowledging and giving suitable exposure to new PvP solution providers would not only benefit the relevant industry bodies by better informing their horizon-scanning in driving progress of PvP goals, but also, potentially, foster competition and choice, which is a key objective for many such groups.

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Thank you for the opportunity to provide comments on the Report. If you have any questions please do not hesitate to reach out to Victoria Cumings, Chief Legal & Regulatory Officer, at victoria.cumings@rtgs.com.

Yours sincerely,

Dave Sissens
Chief Executive Officer
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