

▶ **CPMI Report**

# **Service level agreements for cross-border payment arrangements**

**Recommendations and key features**

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## Executive summary

The cross-border payments ecosystem is complex, involving many different parties, financial infrastructures, use cases and underlying arrangements. The payer and payee in a cross-border payment are typically located in different jurisdictions and require intermediaries operating in multiple jurisdictions. Hence, many different elements, rules and processes – also referred to as payment arrangements – need to be in place to enable cross-border payments to be made. Payment arrangements play an important role in cross-border payments and – if properly designed – can help meet the quantitative cross-border payments targets on cost, speed, accessibility and transparency, endorsed by the G20 in 2021 (to be achieved by end-2027).

Payment arrangements are bilateral or multilateral agreements between the supply side actors of cross-border payments, mainly payment service providers (PSPs), correspondent banks and/or payment system operators. They, among other things, define minimum service levels to be met by these supply side actors. This report by the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI) focuses on the service level agreements that form part of cross-border payment arrangements, such as correspondent banking relationships, the interlinking between payment systems and payment instrument rulebooks.

While the scope and design of the different payment arrangements can vary, they typically cover a similar set of elements. These elements include applicable legal, regulatory and oversight frameworks, governance of the payment arrangement, conditions for participation in the arrangement, a framework for the comprehensive management of risks, interoperability aspects, as well as aspects of processing, clearing and settlement of payments. The work has been informed by a year-long interaction with key industry stakeholders in the form of a dedicated expert group (the service level task force (SLTF)).

Inadequate design and lack of harmonisation across service level agreements can lead to uncertainty, heightened risks, longer transaction chains or reduced interoperability, thus amplifying frictions impacting cross-border payments. This report introduces high-level *recommendations, key features and guiding questions* to inform entities involved in cross-border payment arrangements when reviewing existing agreements, as well as changing or establishing new ones. The recommendations are deliberately kept at a high level. The key features provide a set of practical considerations and identify relevant/applicable aspects of those recommendations. Finally, the guiding questions set out for each recommendation are an additional tool for analysing payment arrangements.

Applying the recommendations in a proportionate way can contribute to increased harmonisation of elements covered by these arrangements, without putting an undue burden on new and smaller payment arrangements. The *Principles for financial market infrastructures* (PFMI) have informed the recommendations. However, these recommendations are not intended to impose additional standards or guidance on the application of the PFMI to payment arrangements, but rather to share relevant insights and learnings from the PFMI with stakeholders involved in payment arrangements and relevant authorities.

Going forward, PSPs, correspondent banks, payment system operators and governance entities of new or existing cross-border payment arrangements, especially those with significant growth potential, are encouraged to consider the recommendations and key features developed in this report. Overseers can take this report into consideration for their own oversight approach. The report will inform the ongoing work of the CPMI on the governance and oversight of interlinking arrangements, specifically between fast payment systems. The CPMI will also feed the findings of this report into its ongoing dialogue with industry stakeholders, such as the cross-border payments interoperability and extension taskforce.

# 1. Introduction

Enhancing cross-border payments can offer benefits to all, through lower costs, faster speed, greater transparency and improved access. Since October 2020, when the G20 leaders endorsed the roadmap for enhancing cross-border payments (FSB (2020)), the CPMI, in coordination with the Financial Stability Board (FSB) and other relevant international organisations and standard-setting bodies, has largely laid the foundation for further developments through stocktakes and analysis. Regular collaboration with a wide range of private and public sector stakeholders who share their insights and expertise also contributes to our understanding of the challenges. In February 2023, the FSB published the prioritised roadmap to enhance cross-border payments and this report is one of the priority actions of the cross-border payments programme implementation (FSB (2023)). This CPMI deliverable provides recommendations for the current or envisaged service levels of cross-border payment arrangements.

This report has been informed by a stocktake of existing cross-border payment arrangements and regular exchanges with practitioners. The work began with the analysis of more than 20 selected payment arrangements of relevance to cross-border payments. The CPMI identified a set of common features among the selected payment arrangements, ranging from governance aspects to technical standards and operational characteristics. To analyse how the design of common elements for payment arrangements could contribute to achieving cross-border payment targets across the different payment market segments, the CPMI established an expert group that included market stakeholders (the service level task force (SLTF)).<sup>1</sup>

The recommendations and key features in this report have benefitted from the stocktake findings and the exchange with industry stakeholders. The recommendations aim to help identify, implement and achieve certain outcomes of service level agreements that can enhance cross-border payments, such as interoperability, safety and efficiency. While stakeholders in cross-border payment arrangements are invited to take the recommendations into consideration, they are not legally binding nor meant to be used for the purpose of assessing payment arrangements. The recommendations in this report have been informed by the *Principles for financial market infrastructures* (PFMI), but they do not create additional standards for payment systems beyond the PFMI, nor do they constitute guidance as to their application (CPSS-IOSCO (2012)).

The remainder of the report is structured as follows: Section 2 defines payment arrangements, specifies the type of arrangements within the scope of this report and discusses their relevance for meeting the G20 targets on cross-border payments on cost, speed, transparency and access; Section 3 discusses the elements of these arrangements and the outcomes they aim to achieve; Section 4 outlines the recommendations and illustrates the key features to achieve the outcomes discussed in Section 3; Section 4 also includes a set of guiding questions that can be used to explore the way in which the key features have been addressed by a given payment arrangement. Finally, Section 5 concludes.

<sup>1</sup> While this report benefitted from the discussions of and the feedback received from industry stakeholders, the report as such or the views expressed therein are not necessarily those of the members of the SLTF or their affiliates. Representatives from Banking Computer Services Pte Ltd, BankservAfrica, Buna, EBA CLEARING, the European Payments Council (EPC), GSMA (GSM Association), Gulf Payments Company (GPC), HSBC, Iberpay, International Association of Money Transfers Networks (IAMTN), J.P. Morgan Payments, JoPACC, Mastercard, NPCI International, Pay.UK, Payments Canada, RTGSGlobal, Stellar Development Foundation, Swift, The Clearing House, VISA, as well as independent experts, participated in the SLTF.

## 2. Cross-border payment arrangements and their relevance for achieving the G20 targets

### 2.1 Payment arrangements in the taxonomy of cross-border payments

The cross-border payments market is comprised of the demand side (ie the end users<sup>2</sup> in the case of retail payments, or institutional users in their roles as payer and payee in the case of wholesale payments) and the supply side. Payment service providers (PSPs) are those supply side actors offering payment services directly to end users. PSPs can be banks or non-banks. In the case of wholesale payments, PSPs themselves are in the role of institutional users. Unless both the paying and receiving users are customers of the same PSP (eg in the case of closed loop solutions or on-us transactions), PSPs will typically rely on other supply side actors, such as payment system operators, correspondent banks and foreign exchange (FX) providers to process payments. Bilateral or multilateral payment arrangements cover, among others, the rules for the execution of payments between supply side actors by specifying the roles and responsibilities for processing, clearing,<sup>3</sup> settlement<sup>4</sup> and exception management of cross-border payments:

- **Bilateral payment arrangements** are contracts between two PSPs (in the case of individual correspondent banking arrangements) or between two payment systems (in the case of bilateral interlinking arrangements). They can be based on standard templates that the contracting parties agree to use. Typically, no separate governance entity is involved (see Graph 1).
- **Multilateral payment arrangements**, often referred to as payment schemes, are formal, standardised and common rules for the execution of wholesale payments, retail payments or remittances. They define the relationship between more than two PSPs or payment systems and they are managed by a governance entity. The governance entity can be a public or private sector institution (eg central bank, multi-jurisdictional public body or consortium of PSPs) and is the decision-making entity responsible for the governance of a payment arrangement (see Graph 2).

Bilateral and multilateral payment arrangements define minimum service levels to be met by and responsibilities of the entities involved. They are not mutually exclusive. For example, an electronic fund transfer or card payment based on a multilateral payment arrangement can be settled via correspondent banking arrangements or bilateral interlinking arrangements. Payment arrangements, whether bilateral or multilateral, can be differentiated from other contractual agreements that are out of scope of this report. These contractual agreements are typically provided in the competitive domain and fall within the mandate of consumer protection authorities (in the case of end user contracts) or are covered by the PFMI (in the case of critical service provider contracts and payment system rules):

- **End user contracts** define the terms and conditions of the relationship between end users and their PSPs. They are typically standard form contracts with limited, if any, customisation. If the end user is a consumer, these contracts are subject to the relevant consumer protection laws and regulations.

<sup>2</sup> End users are users of payment services as opposed to institutions offering payment services, for example individual consumers, corporates and merchants. The institutions providing payment services are also end users whenever they use payment services offered by others for their own retail payments (eg utility bills and salaries) (CPMI (2017)).

<sup>3</sup> The process of transmitting, reconciling and, in some cases, confirming transactions prior to settlement, potentially including the netting of transactions and the establishment of final positions for settlement (CPSS-IOSCO (2012)). It should be noted that definitions used by other organisations can differ slightly. According to the ECB definition, for example, transmission is one part of the clearing process (ECB (2023)).

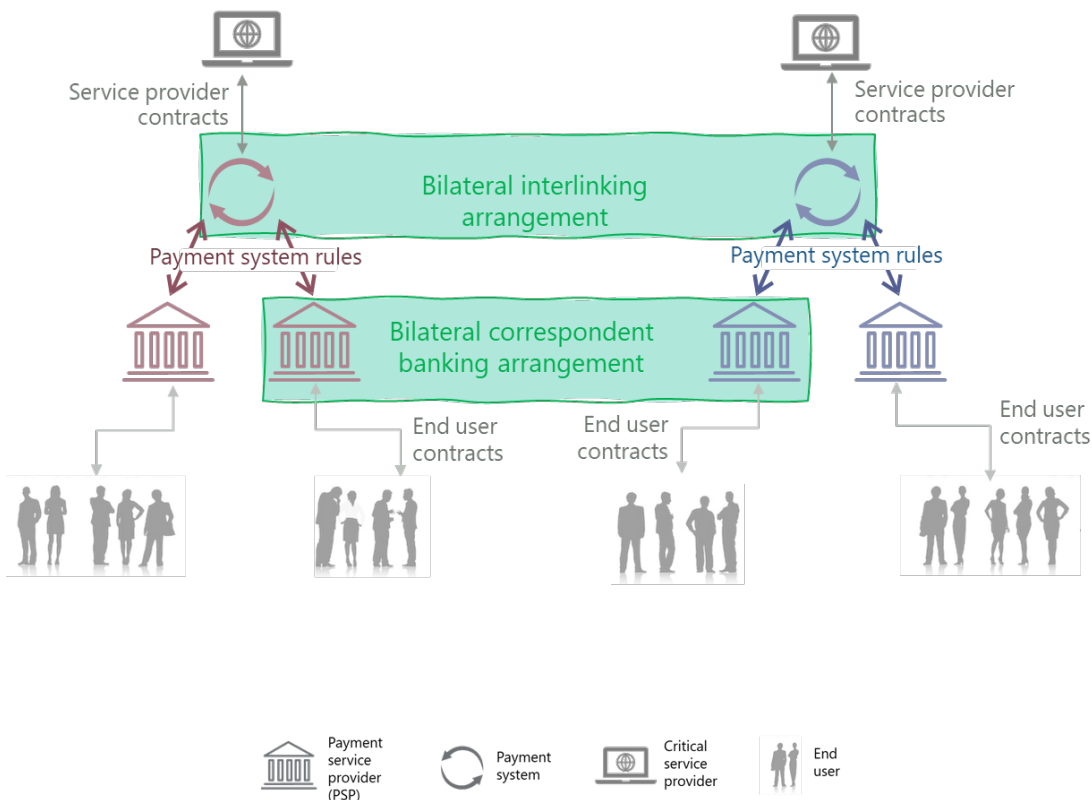
<sup>4</sup> The discharge of an obligation in accordance with the terms of the underlying contract (CPSS-IOSCO (2012)).

- **Service provider contracts** determine the relationship between the PSP or payment system and its technical service providers (eg financial messaging provider). The PFMI include expectations specifically targeted at critical service providers in the areas of risk identification and management, robust information security management, reliability and resilience, effective technology planning and strong communications with users. If payment systems are systemically important, the PFMI also apply to their outsourcing arrangements (CPSS-IOSCO (2012)).
- **Payment systems rules** form the basis of the relationship between the payment system owner and its participants. If a payment system is systemically important, these rules should be in line with the PFMI (CPSS-IOSCO (2012)).

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Stylised models and examples of bilateral payment arrangements

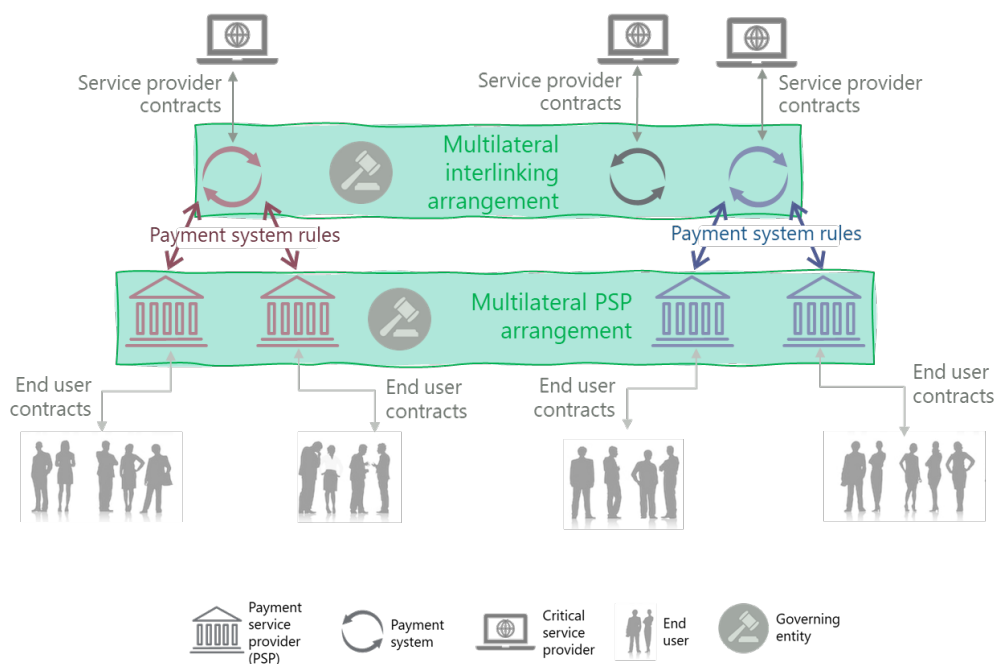
Graph 1



The focus of this report is shaded in green. Examples of bilateral interlinking arrangements are links between the fast payment systems of Singapore and Thailand (PayNow-PromptPay), Singapore and India (PayNow-UPI) as well as between payment systems in Mexico and the United States (Directo a México).

Source: CPMI.





The focus of this report is shaded in green. An example of a multilateral interlinking arrangement is Nexus; examples of multilateral PSP arrangements are the European Payments Council's schemes for credit transfers or direct debits, international card schemes and Swift GPI.

Source: CPMI.

## 2.2 Functional scope of payment arrangements

### 2.2.1 Correspondent banking arrangements

Correspondent banking is an essential component of the global payments ecosystem, especially for cross-border payments. Through correspondent banking relationships, PSPs can access financial services in different jurisdictions and provide cross-border payment services to their customers (CPMI (2016)). In correspondent banking arrangements, one bank (correspondent) will typically establish a bilateral contract with another bank (respondent) to hold its deposits and provide payment and other services to the respondent bank. A cross-border payment via correspondent banking can involve a series of fund transfers in a chain of linked correspondent banks. The intermediary banks in these chains are often large global banks offering their correspondent banking services to smaller domestically focused PSPs (CPMI et al (2023)). More recently, multilateral correspondent banking arrangements have been established and have complemented bilateral arrangements by defining service levels that PSPs (and payment infrastructures) should meet.

In 2016, the CPMI issued recommendations on certain measures relating to (i) know-your-customer (KYC) utilities; (ii) use of the legal entity identifier (LEI) in correspondent banking; (iii) information-sharing initiatives; (iv) payment messages; and (v) the use of the LEI as additional information in payment messages (see Annex 2). From 2018 until 2023, the CPMI and Swift conducted an annual quantitative review of correspondent banking data (CPMI (2016, 2023a)).

## 2.2.2 Payment system interlinking arrangements

Interlinking arrangements can be (a series of) bilateral links, each with their own rules, or links under a multilateral framework. Payment arrangements to interlink payment systems of different jurisdictions are often bilateral contractual agreements, defining technical links and standards, and operational components. An interlinking arrangement enables a PSP participating in the payment system of country A to send payments to PSPs participating in the payment system of country B, without the need for country A's PSP to open accounts in country B or become a participant in country B's payment system.

The interlinking between payment systems has been a focus of central banks for more than a decade. The Eurosystem, for example, issued oversight expectations for links between retail payment systems back in 2012 (see ECB (2012)). It is becoming even more relevant in view of newly introduced or planned (bilateral) links between fast payment systems (FPS). Work on multilateral interlinking arrangements, however, is still at an early stage (CPMI et al (2023)). Fostering FPS interlinking has been defined as one of the priority actions to achieve the G20 cross-border payments targets by end-2027. Hence, the CPML is working on governance and oversight considerations for interlinking arrangements and published an interim report to the G20 in October 2023, which will be followed by a final report in 2024 (CPMI (2023a)).

## 2.2.3 Payment instrument rulebooks

Payment instruments are means of exchange that facilitate the transfer of funds/value. Electronic payment instruments are credit transfers (including fast payments), direct debits, card payments and e-money payments. Rulebooks for payment instruments are single sets of rules, practices, standards and implementation guidelines for the execution of such payments (CPMI (2017)). While many of these rulebooks focus on a single jurisdiction and/or a single currency, several international and cross-currency multilateral arrangements for remittances and retail payments are being developed or are already operational (Box 1). The resulting inter-PSP payments can be processed via correspondent banking, payment system interlinking or a common platform (the latter being out of scope of this report since it qualifies as a payment system).

Box 1

### Payment instrument rulebooks for "one-leg out" payments

In March 2023, the European Payments Council (EPC) published the first version of the One-Leg Out Instant Credit Transfer (OCT Inst) scheme, and the scheme went live on 28 November 2023. This scheme is an example of a multilateral payment arrangement with a specific cross-border ambition as international instant credit transfers in euros or in another currency can be processed in accordance with its rules.

A "one-leg out" (OLO) payment is an international credit transfer whereby one of the payment service providers (PSPs) involved in the transaction (either the payer's or the payee's) is located in a single euro payments area (SEPA) jurisdiction and at least one side of the international credit transfer is processed in euros (the euro leg). The other PSP operates in a country or territory outside SEPA or is established and licensed in SEPA, but operates the non-euro leg instruction. The OCT Inst is the first EPC scheme to cover cross-currency payments between euro and any other non-euro currency.

The scheme further outlines in detail the roles and obligations of PSPs that are serving as an entry or exit point for the euro part of the transaction. For the euro leg, the scheme provides a single set of rules, practices and standards, such as reachability measures, messaging standards (ISO 20022), as well as charging principles, upfront fee disclosure and transparency (including foreign exchange conversion fees), a minimum set of data elements to be provided by the payer, remittance information, exception handling procedures, the maximum sum that can be transferred and maximum processing time (10 seconds), the recall procedure and the payment status traceability (eg via the optional unique end-to-end transaction reference (UETR) and inquiry use cases).

OLO payments can be offered by individual PSPs, OCT Inst processors and potentially multiple infrastructure providers. For the non-euro leg, the set of rules, practices and technical standards are determined by the entry and exit PSPs, typically on a per-corridor basis, and are bilaterally agreed between the payer's PSP, the payee's PSP and the entry and exit PSPs participating in the scheme, respectively.

The OCT Inst scheme enables PSPs in SEPA to efficiently process incoming and outgoing OLO instant credit transfers through highly automated fund transfers. It gives PSPs in SEPA the opportunity to offer their customers a faster execution of such cross-border payment transactions, more up-front transparency on costs and parties involved, and better payment status traceability.

A further illustration of a payment instrument rulebook covering cross-border transactions is currently being developed by the Arab regional payment system Buna. The Buna framework diverges from the OCT Inst framework in two essential aspects. First, the concept of legs in and legs out pertains to a payment system (Buna), rather than a geographical area (SEPA) and it also mandates that transactions must be processed by Buna, whereas the OCT Inst scheme is agnostic regarding the payment systems used to process the transactions. Second, from an operational perspective, institutions are required to obtain preliminary authorisation. Furthermore, institutions must ensure full compliance, real-time screening, as well as seamless end-to-end transactional visibility. The project is implemented in a phased approach, starting in the third quarter 2023.

Sources: EPC (2023) and Buna (2023).

## 2.3 Geographic scope of payment arrangements

Next to the number of entities involved and type of use cases, payment arrangements can be differentiated depending on their geographic scope. Payment arrangements can have a strictly domestic focus<sup>5</sup> or an international dimension. International payment arrangements can focus on certain cross-border payment corridors, entire regions or follow a global approach.

## 2.4 Market segments covered by payment arrangements

Payment arrangements can cover one or more of the market segments in scope of the cross-border payments programme, ie remittances, cross-border retail and wholesale payments. Remittance payments are low-value/high-volume transactions primarily to payees in emerging market and developing economies (EMDEs). Cross-border retail payments are also low-value/high-volume transactions, but are typically between individuals, businesses and government agencies. Wholesale cross-border payments are high-value/low-volume transactions typically made between financial institutions, either to support the financial institution's customers' activities or its own cross-border activities (FSB (2021)).<sup>6</sup>

<sup>5</sup> While domestic arrangements have the potential to improve the initial and final legs of a cross-border payment, this report focuses on international payment arrangements, especially payment arrangements with multi- or cross-currency features.

<sup>6</sup> While there is no universal definition for wholesale, retail and remittances, for the purpose of measuring progress against the G20 cross-border payment targets, the FSB has defined wholesale as all payments above a certain value, regardless of the types of end-users involved (FSB (2022)).

## 2.5 Overview of practical examples

Existing payment arrangements can be categorised depending on functional scope, geographic scope and market segment as laid out in Table 1.

Typology of payment arrangements in the cross-border payment context Table 1

Criterion	Characteristic	Examples of payment arrangements
Functional scope	Correspondent banking	Swift GPI
	Payment system interlinking	European Automated Clearing House Association (EACHA) frameworks, Nexus
	Payment instrument rulebooks	SEPA rulebooks
Geographic scope	Domestic	PIX scheme, unified payments interface (UPI) framework
	Regional	SEPA rulebooks, Southern African Development Community (SADC) schemes, European Payments Initiative (EPI) scheme
	Global	Swift GPI, international card schemes
Market segment	Wholesale payments	Swift GPI, SADC schemes
	Retail payments	SEPA rulebooks, PIX scheme, EACHA frameworks, SADC schemes, international card schemes, UPI framework
	Remittances <sup>7</sup>	Money transfer schemes (MTS), mobile money schemes, international card schemes

## 2.6 Relevance of payment arrangements for meeting the G20 targets

In October 2021, as a key foundational step in the G20 roadmap, the FSB set quantitative global targets for addressing the four challenges – cost, speed, access and transparency – faced by cross-border payments. They were set for the three market segments in scope of the G20 cross-border payments programme (wholesale, retail and remittances), to define its ambition and create accountability. The FSB monitors progress towards meeting the targets in order to steer the work under the roadmap and achieve concrete improvements (FSB (2022)).

The high-level recommendations in this report cover elements of cross-border arrangements that can help to inform service level agreements in cross-border payment arrangements and, if applied, reduce frictions. This will support achieving the G20 targets. Industry stakeholders from the SLTF, for example, have highlighted the importance of payment arrangements for technical and business interoperability. More specifically, the recommendations promote the use of internationally accepted technical standards regarding financial messaging as well as the use of application programming interfaces (APIs) when appropriate.<sup>8</sup> Both are key to fostering pre-validation, achieving full straight through processing and complying with anti-money laundering and countering the financing of terrorism (AML/CFT) requirements

<sup>7</sup> It is acknowledged that remittances can be defined as a subset of retail payments. Since FSB (2021) suggests dedicated targets for remittances, this report considers them as a separate category from other retail payments (person-to-person).

<sup>8</sup> APIs ease the connectivity and access to information, thus enhancing the processing of cross-border payments.

more efficiently, thus reducing costs and increasing speed. The use of international technical standards can also facilitate the establishment of interlinking arrangements, whether bilateral or multilateral (see Box 2 of BISIH et al (2023)), which have the potential to enhance cross-border payments.

Box 2

### Key elements to initiate and receive cross-border instant payments via interlinked fast payment systems – the Nexus example

The BIS Innovation Hub's Project Nexus provides a blueprint for a scalable cross-border payments network, Nexus, that would connect fast payment systems (FPS) in multiple countries, enabling them to offer cross-border payments that reach their destination within 60 seconds (in most cases). Nexus has two elements: (a) Nexus Gateways – software that communicates between the domestic FPS and Nexus Gateways in other countries and (b) a limited-scope Nexus scheme, which covers the requirements for cross-border payments that are not addressed by domestic instant payment schemes.

Nexus is designed to accommodate the differences in functionality between different FPS, rather than relying on harmonisation between schemes. Nexus averages out the differences between schemes; each FPS operator would be expected to adapt once to meet the requirements of Nexus, rather than trying to address incompatibilities on a scheme-by-scheme basis.

To accommodate these differences, Nexus asks each FPS operator to codify their scheme in a service level description (SLD). These SLDs are then shared across the Nexus network. When a customer initiates a payment, the sending bank will ask Nexus for the SLD of the destination country. This information allows the sending bank to ask the sender for the appropriate information and set up a payment instruction which will be accepted in the destination country.

Key details in a country's SLD include:

- Whether aliases (such as mobile phone numbers, email addresses or company registration numbers) can be used to address payments in that country, and the formats of any aliases allowed.
- The format of the local bank account numbers and bank identifiers.
- Whether IBANs are accepted.
- The maximum payment value that can be sent to that destination (since each FPS will have different transaction value limits for domestic payments).
- Whether *confirmation of payment* functionality is available, and if so, what information (if any) needs to be provided by the sender.
- The timeouts that apply in the destination FPS (which can be used to calculate how long a Nexus payment may take in the worst case scenario).
- How many days the sender has to dispute a payment or request a payment reversal.

Source: BISIH et al (2023).

As another example, a sound risk management framework for payment arrangements can ease the day-to-day processing of payments and avoid conflicts between different participants in the payment chain when responsibilities are clearly allocated and processes for exception handling well defined. Along with clear and transparent governance, a sound risk management framework can enhance the security and efficiency of cross-border payments, while limiting disruptions and exceptional events that contribute to driving the average cost of payments up and their speed down. Lastly, the payment arrangement can set harmonised processing rules to encourage the safe, efficient and fast execution of payments. Through these rules, the payment arrangement can facilitate the exchange of financial messages, encourage fee transparency (including FX conversion rates) and include transaction tracking both for transparency and safety purposes.

### 3. Elements determining the service level of payment arrangements

Payment arrangements typically cover a similar set of elements to define the service level agreed among the entities that form part of the arrangement and how the service level is monitored or even enforced. These elements of the service level agreement might be within the payment arrangement's own sphere of influence or, at least in part, externally determined. This section briefly describes these elements and discusses them in the cross-border payments context.

#### 3.1 Legal, regulatory and oversight framework

The legal, regulatory and oversight framework plays a critical role in creating an enabling environment for payment arrangements. Bilateral or multilateral agreements with participants from different jurisdictions typically have a defined governing law and are legally validated in every jurisdiction in which participants are located. The legal and regulatory framework can also have a bearing on the risk allocation within the payment arrangement. Based on this framework, payment arrangements can further specify the rights and obligations of participants and the consequences of non-compliance with the payment arrangement rules.

A failure to establish and effectively oversee adherence to such a framework can threaten the safety and efficiency of payment arrangements, lead to inadequate protection of end users and deter usage. Non-compliance can result in legal and reputational risk for the payment arrangement and/or its participants, and potentially in financial losses. While central banks conduct oversight of national payment arrangements in line with the respective oversight framework, cross-border payment arrangements affect central banks from several jurisdictions. In such a case, a cooperative oversight arrangement with interested central banks, coordinated by a lead overseer, can be considered and is utilised for the oversight of global financial infrastructures such as CLS Bank or Swift and, for example, for pan-European payment arrangements (CPMI-IOSCO (2019)).

For payment arrangements the legal, regulatory and oversight framework is externally determined and the payment arrangements should be compatible and comply with the framework. A payment arrangement might simply refer to the respective framework (if the legal, regulatory and oversight requirements are very prescriptive) or detail the obligations of stakeholders and the way to enforce them (if the legal, regulatory and oversight frameworks do not address obligations and enforcement mechanisms sufficiently).

#### 3.2 Governance

Governance<sup>9</sup> covers the roles and responsibilities among the entities involved in the arrangement, including the decision-making framework for the payment arrangement's development and the rules, processes and procedures through which the objectives of the arrangement are set. Governance provides the incentives to pursue objectives that are in the interest of the payment arrangement's stakeholders and that support relevant public interest considerations. Governance can also include dispute resolution measures, ie a defined process for parties to resolve issues without third-party intervention, while the governance entity may act as mediator if needed. In the case of multilateral payment arrangements, a single or dedicated entity acts as the governance "authority" and typically also owns the payment

<sup>9</sup> Governance, as defined in the PFMI is "the set of relationships between an FMI's owners, board of directors (or equivalent), management and other relevant parties, including participants, authorities, and other stakeholders [...]. Governance provides the processes through which an organisation sets its objectives, determines the means for achieving those objectives, and monitors performance against those objectives" (CPSS-IOSCO (2012)).

arrangement. Bilateral arrangements are usually owned by their participants and do not have a dedicated entity in charge of governance.

Some of the existing payment arrangements monitor performance at the payment arrangement and its participants' level for transparency reasons and to improve adherence to the payment arrangement's rules and procedures. Performance and adherence monitoring allows the governance entity to evaluate participants' performance vis-à-vis others and it can also provide a useful benchmark for each participant and create peer pressure to improve the overall performance of the payment arrangement. Also, in the case of bilateral payment arrangements, the monitoring of performance can help to determine whether the service levels agreed are met.

### 3.3 Participation

Participation refers to the ability to join and be part of a multilateral payment arrangement. A multilateral payment arrangement needs to control the risks to which it is exposed from participants by setting reasonable risk-related requirements for participation. In a multilateral arrangement, new participants can join without establishing bilateral relations with other participants; hence trust is a prerequisite. Licensing and regulation can be sources of trust and multilateral payment arrangements might restrict participation to regulated financial institutions. Eligibility to participate is shaped by the legal and regulatory environment, determined by the respective rules and applied by the governance entity. The more restrictive the participation criteria are, the lower the number of participants, resulting in limited network effects and reachability.

### 3.4 Risk management

Payment arrangements typically include security policies, procedures, processes and tools to identify, mitigate and manage risks (eg operational, legal, credit, settlement, business and liquidity risks). To determine the acceptable risk level and to review risk management policies and practices, it is good practice for involved parties to regularly conduct operational and security risk analyses. This analysis would focus on systemic risk stemming from increased interconnectedness due to regional or international interoperability.

Governance entities of different payment arrangements have been cooperating on security standards. Examples are the Payment Card Industry Data Security Standard (PCI DSS) or the EMV specifications, resulting from a cooperative effort by major card schemes to create common industry security requirements, aimed at increasing controls around cardholder data to reduce card payments fraud. Risk profiles might differ depending on the geographic scope of a payment arrangement (eg fraud prevention and sanctions screening in a domestic context is typically less complex than at a regional or global level) or the payment type and instrument covered by a scheme (eg retail payments have a larger attack surface in view of numerous retail customer interfaces and among retail payment, fast payments require particularly sophisticated fraud management tools due to the instant crediting of the recipients' account). Appropriate risk management measures should ultimately preserve the overall safety of the payment arrangement, including in areas such as data privacy, payments, and user integrity and authenticity.

### 3.5 Technical standards

Adopting internationally accepted communication protocols and message formats can reduce the need for manual intervention and associated risks and transaction costs, hence improving efficiency and limiting barriers to entry into a market. Many payment arrangements already leverage international standards or

define conversion rules. Standards for financial messaging,<sup>10</sup> account and entity identification<sup>11</sup> and security<sup>12</sup> fall within this category. New message formats, such as ISO 20022, typically allow more information to be carried with the payment message, which might facilitate AML/CFT checks. Exchanging this information in a structured way might further increase the efficiency of compliance checks.

However, country- or region-specific implementations of international standards might still affect cross-border interoperability. International forums, such as Swift's Payments Market Practice Group (PMPG), try to establish market practices which can help to establish business interoperability and achieve full straight through processing and improved customer service (Swift (2023)). Error and exception handling are topics of particular importance to guarantee a smooth experience to the parties. The CPMI has worked with financial industry representatives to facilitate a harmonised adoption and use of ISO 20022 for cross-border payments. A joint task force comprising technical experts from the CPMI and the PMPG have developed harmonised data requirements for the use of ISO 20022 messages in cross-border payments (CPMI (2023b)).

Harmonised use of ISO 20022 for cross-border payments and other international standards should increase interoperability for a payment arrangement and its participants across the dimensions of technical, semantic and business interoperability. Technical interoperability refers to the seamless exchange of data, while semantic interoperability should ensure that data is interpreted and acted upon consistently. Finally, business interoperability focuses on rights and obligations, such as access rights and clearing and settlement procedures (Boar et al (2021)).

### 3.6 Processing

Payment arrangements aim to ensure an efficient and safe processing of transactions, from their initiation until their completion and confirmation. Payment arrangements with a regional or global focus typically have rules covering cross-border or cross-currency transactions. In the case of domestic payment arrangements, co-badging with international schemes or interlinking arrangements can still enable their cross-border use. Certain payment arrangements (eg international card schemes and remittances schemes) govern FX conversion and settlement, while others leave this process to members.

Payment arrangements can contribute to transparency by enabling end users to track the status of the payment throughout the processing chain and require participants to inform their customers about the FX rate or fees applied. While international standards, such as IBAN, allow for certain syntactic checks by the sending PSP, payments can still be rejected by the receiving PSP for several reasons, eg the recipient's name and the account holder's name might not match, the account might be closed or payments might be suspicious from a financial crime perspective. Depending on the reason for non-execution, reporting the cause of the exception to the sender or the intended recipient may be appropriate, while in other cases it may not be appropriate or legal (where financial crime is suspected, or for privacy/data protection reasons). In order to harmonise exception handling, schemes typically design procedures to ensure that regular exceptions can be processed automatically and thus increase efficiency.

<sup>10</sup> For example, ISO 20022 or ISO 8583.

<sup>11</sup> For example, international bank account number (IBAN) (ISO 13616), the business identifier code (BIC) (ISO 9362) and the legal entity identifier (LEI) (ISO 17442).

<sup>12</sup> For example, Payment Card Industry Data Security Standard (PCI DSS).



### 3.7 Clearing and settlement

Clearing is the process of transmitting, reconciling and, in some cases, confirming transactions prior to settlement, potentially including the netting of transactions and the establishment of final positions for settlement. Sometimes the term clearing is also used (imprecisely) to cover settlement. Settlement is the discharge of an obligation in accordance with the terms of the underlying contract (CPSS-IOSCO (2012)).

Instead of mandating the clearing and/or settlement via specific providers and payment systems, many payment arrangements define certain requirements that should be met and leave the ultimate choice of the clearing and/or settlement provider to their participants.<sup>13</sup> Payment transactions exchanged within one payment arrangement, can be settled via another one (eg in the context of international card schemes, settlement of net positions can take place via correspondent banking).

The settlement phase may pose financial risks related to the default or the insolvency of a participant or the settlement provider. To mitigate these risks, payment arrangements can define the point in time of settlement finality, support arrangements to complete settlement if a member defaults on its obligations and envisage rules for rejected transactions (eg in case of suspicion of money laundering, lack of funds or message formatting errors). Many payment arrangements define the point in time when payments are irrevocable and can be considered final from the payee's point of view. This might happen before final settlement between PSPs.

## 4. Recommendations and key features

The recommendations and key features put forward in this section should inform cross-border payment arrangements when reviewing their existing agreements, changing them or establishing new ones. They build on the elements identified in Section 3 and focus on the intended outcome of those elements for payment arrangements and their service levels. The recommendations are intentionally kept at a high level and are not intended to impose additional standards. The key features provide a set of practical considerations to illustrate the recommendations and identify aspects that are relevant for the respective payment arrangement.

Depending on the state of development, market deployment and adoption of a specific payment arrangement (eg based on participants' base, volume, value or geographic distribution), certain key features might not be fully relevant yet. However, the PSPs, payment systems and/or governance entity of a new or existing cross-border payment arrangement with significant growth potential (if there is a plausible business case indicating that the payment arrangement may be adopted widely) are encouraged to consider them.

Applying the recommendations in a proportionate way can contribute to increased harmonisation of cross-border payment arrangements in the areas of legal considerations, governance, participation criteria, risk management, technical standards, processing rules and/or clearing and settlement, without putting an undue burden on new and/or smaller payment arrangements. This section includes a set of guiding questions for each recommendation and its key features. These questions can help governance entities and/or payment arrangement participants in identifying the elements relevant for their respective payment arrangements.

<sup>13</sup> For example, the European Payments Council maintains a list of organisations that are compliant with SEPA schemes, based on a self-declaration about those clearing and settlement mechanisms.

## 4.1 Recommendation 1: Enforceability of service levels

***The material aspects of the service level agreement are clear, transparent and enforceable in all relevant jurisdictions.***

Key features for consideration for all payment arrangements

- The service level agreements are based on a governing law that provides a high degree of certainty for each material aspect in all relevant jurisdictions in order to carry out cross-border payments.
- The service level agreement has rules, procedures, contracts and dispute resolution processes that are clear, easily understandable for the relevant audience, and consistent with the relevant laws and regulations of those jurisdictions in which it operates.

Key features for consideration for multilateral payment arrangements

- The roles, responsibilities and liabilities of the governance entity are clearly specified, and there are documented procedures for its functioning, including internal procedures to identify, address and manage potential or real conflicts of interest.
- The governance entity periodically and in case of major changes reviews the service level agreement to identify the legal risk of any changes in the legal and regulatory frameworks of relevant jurisdictions that could affect, in particular, cross-border payments.
- Upon joining the payment arrangement, participants confirm compliance with the governance law and rules of the payment arrangement and the absence of (or mitigation measures taken to avoid) conflict of law issues.

Box 3

### Guiding questions for enforceability of service levels

- In which jurisdictions does the payment arrangement operate in?
- What are the service level agreement's material aspects and how can these be enforced in the jurisdiction in which the payment arrangement is active?
- How can cross-border disputes on the service level agreement be resolved by the relevant stakeholders? What are the dispute resolution mechanisms to address end user claims and complaints?
- Does the payment arrangement have a defined governance entity? If yes, what are the governance entity's roles, responsibilities and liabilities in meeting the performance indicators? Where are the procedures for its functioning, including procedures to identify, address and manage potential or real documented conflicts of interest?
- At which frequency or in which instances does the governance entity review the service level agreement to identify the legal risk of any changes that could affect, in particular, the operation of cross-border payments?
- What is the mechanism that ensures participants comply with the governing law and maintain adequate compliance programmes? What are the measures taken to ensure that there are no conflict of law issues upon joining the payment arrangement or to mitigate such conflicts?

Source: CPMI.

## 4.2 Recommendation 2: Performance and adherence

***The service level agreement has clear and transparent adherence criteria and performance indicators that promote the safety and efficiency of cross-border payments, seek to support the G20 cross-border payment targets and other relevant user community and public interest considerations.***

Key features for consideration for all payment arrangements

- The governance entity (for multilateral arrangements) or the two entities that have entered into a bilateral payment arrangement agree on measurable performance indicators which place a high priority on the safety (including financial crime compliance) and efficiency of cross-border payments and which aim to facilitate the achievement of the relevant G20 cross-border payment targets of reduced cost, increased speed, improved transparency and expanded access.
- The monitoring of performance indicators follows transparent processes and facilitates participants' adherence to the payment arrangement's objectives, rules and agreed service levels across all of the jurisdictions in which the payment arrangement operates.<sup>14</sup>
- The service level agreement and performance indicators are documented and provide clear and direct lines of accountability. They are, at least, disclosed to all participants and relevant authorities in the jurisdictions in which the payment arrangement operates. They provide sufficient information to enable participants to have an accurate understanding of the risks, responsibilities and other material aspects that are relevant for participation in the payment arrangement.
- The service level agreement clearly defines the different roles and responsibilities in the payment arrangement on an ongoing basis, including in regard to meeting the payment arrangement's performance indicators, and in the case of termination of the agreement.

Key features for consideration for multilateral payment arrangements

- The governance entity regularly reviews the arrangement's overall performance and on an ongoing basis monitors the payment arrangement's alignment with defined objectives and agreed service levels. This information is shared with the relevant authorities.

Box 4

### Guiding questions for performance and adherence

- What are the measurable performance indicators of the service level agreement and how can they foster the safety and efficiency of cross-border payments in general and achieve the G20 cross-border payments targets?
- What performance indicator monitoring processes and metrics does the service level agreement foresee and do they differ across the jurisdictions in which it operates?

<sup>14</sup> As an illustration, the performance monitoring can include automated alerts to participants in case of non-compliance with the performance metrics and/or the reporting of benchmarks against which participants can assess their own performance.

- How is the performance documented and disclosed to participants, authorities, other relevant stakeholders and/or the general public where relevant?
- At which frequency and/or in which instances does the governance entity review the payment arrangement's overall performance and alignment with defined objectives and agreed service levels? With which authorities is the information shared?

Source: CPMI.

### 4.3 Recommendation 3: Geographic scope

***The multilateral payment arrangement has objective and risk-based criteria across the jurisdictions in which it operates, which enables participants to transact with each other in line with the agreed service levels.***

Key features for consideration for multilateral payment arrangements

- The service level agreement participation criteria is risk-based and aims to balance reachability, trust and reliability. It addresses operational, compliance, legal and financial risks and contributes to maintaining the safety, integrity and functioning of the payment arrangement.
- The payment arrangement considers both benefits and risks of expanding participation to new jurisdictions and/or – within the legal and regulatory perimeters of the jurisdictions in which they operate – new entities, including to non-bank payment service providers. The service level agreement applies across the jurisdictions in which the payment arrangement operates.
- The service level agreement allows participants to a payment arrangement to send and receive transactions to/from other participants in all of the jurisdictions in which the payment arrangement operates.

Box 5

#### Guiding questions for geographic scope

- Is the service level agreement uniform across the jurisdictions in which the payment arrangement operates? If not, what are the reasons for this?
- To what extent is the service level agreement risk-based and how does it address operational, compliance and financial risks?
- What considerations are evaluated when expanding to new jurisdictions and/or new entities? Are there any limitations on the ability to reach participants (eg depending on the type of licence and/or the jurisdiction in which they are based)?

Source: CPMI.

#### 4.4 Recommendation 4: Risk management and safety measures

***The service level agreement identifies, monitors, manages and mitigates the risks for cross-border payments through the use of appropriate tools, policies, procedures and controls.***

Key features for consideration for all payment arrangements

- The service level agreement includes appropriate processes to identify and assess risks as well as the effectiveness of controls and determines the acceptable risk level.
- The service level agreement has clear risk management objectives defined and, in the case of multilateral payment arrangements, the governing entity ensures appropriate monitoring of risks as well as the implementation of risk management processes. These objectives and processes are reviewed and revised periodically.
- The service level agreement aims to have common risk management procedures to the extent possible for the most relevant risks across the jurisdictions in which the payment arrangement operates. When doing so, the service level agreement offers enough flexibility to participants to take additional risk mitigation measures as deemed appropriate.
- The service level agreement has defined fraud risk management expectations (eg policies and procedures such as fraud risk governance, fraud risk assessment, fraud controls, investigation, corrective action and monitoring/reporting) and encourages participants to develop and implement risk management measures that correspond to the nature of their activities and their risk profile.
- The service level agreement clearly defines the risk management responsibilities among all relevant actors for different risk events and the associated information-sharing procedures.
- The service level agreement has information security policies and procedures for operational and security incidents to: (i) classify the incident within a common agreed scale, from minor to major; (ii) implement incident response; and (iii) report to the governance entity and other parties in all relevant jurisdictions (possibly through the former).
- The service level agreement includes a business continuity plan that addresses operational risks, including events that could cause a wide-scale or major disruption to the service.
- For exceptional and adverse events of relevance for the payment arrangement as a whole, such as the default of a participant, large-scale fraud or a cyber incident, the service level agreement defines a clear communication protocol, decision-making roles and responsibilities.

Box 6

#### Guiding questions for risk management and safety measures

- What type of risks arise in or are borne by the payment arrangement?
- What risk management objectives are defined in the service level agreement and how are they monitored?
- To what extent are risk management policies harmonised across the jurisdictions in which the payment arrangement operates? Do participants have the flexibility to put additional risk mitigation measures in place?
- What is the fraud risk management policy defined in the service level agreement? Does it define specific fraud management measures? What flexibility do participants have in implementing fraud management control measures?

- How are the risk management responsibilities for different possible scenarios determined and distributed among the relevant actors? How are cross-border aspects catered for?
- Which information on other participants' and end users' compliance may be shared among payment arrangement participants and/or with the governance entity?
- What procedures does the service level agreement define to deal with incidents? In case of major events, are there agreed cross-border crisis communication procedures?

Source: CPMI.

## 4.5 Recommendation 5: Interoperability

***The service level agreement promotes internationally accepted technical standards for identification and information exchange to facilitate interoperability among participants and potentially with other payment arrangements.***

Key features for consideration for all payment arrangements

- The service level agreement fosters harmonised process flows, participants' minimum technical security standards and the use of common message standards.
- The service level agreement is based on internationally accepted market practices and, to the extent the payment arrangement makes use of ISO 20022, the service level agreement promotes the implementation of the CPMI harmonised data requirements (CPMI (2023b)).
- If proprietary and/or domestic messaging formats are used, the service level agreement has acceptable mapping rules between them and the respective international message standards, and such rules are provided to participants.
- In the case of the use of proxy identifiers,<sup>15</sup> the service level agreement defines the acceptable repository and/or lookup mechanism, which links the proxy identifier with a relevant international account identifier or clarifies which external solutions can provide the services.
- The service level agreement defines a minimum set of structured data to foster pre-validation, promote straight through processing, facilitate compliance checks, reduce fraud or rejection risks and improve traceability and dispute resolution.

Box 7

### Guiding questions for interoperability

- To what extent does the service level agreement define standardised process flows, minimum technical security standards and certification requirements and/or the use of common message standards?

<sup>15</sup> Proxy identifiers can help to increase the speed, accessibility and user convenience of cross-border payments processed through the interlinking arrangement.

- If the payment arrangement makes use of the ISO 20022 format, does the service level agreement promote the adoption of the CPMI harmonised ISO 20022 data requirements for cross-border payments? If it does not, are there any plans to do so?
- Does the service level agreement identify a minimum set of required data elements for each message type and their format to streamline information exchange and processing?
- To what extent does the payment arrangement allow for the use of proprietary and/or domestic messaging formats? If proprietary and/or domestic messaging formats are allowed, does the service level agreement define mapping rules between them and the respective international messaging standards?
- Does the payment arrangement cover the use of proxy identifiers? If so, does the service level agreement define acceptable repository and/or lookup mechanisms and/or identify external solutions that link the proxy identifier with a relevant international standard?

Source: CPMI.

## 4.6 Recommendation 6: Transparency and efficiency

***The service level agreement defines processing rules that clearly assign roles and responsibilities to facilitate the efficient execution of payments, ensure a high degree of security and operational reliability and are scalable across borders.***

Key features for consideration for all payment arrangements

- The service level agreement clearly assigns roles and responsibilities for standard processing as well as exception handling, which avoids duplication of effort on the side of participants and are communicated as relevant to the parties to the cross-border transaction.
- The service level agreement follows common market practices for the processing of complementary services, such as FX conversion and fee calculation, value added services, such as pre-validation, transaction tracking and credit notification.
- The service level agreement supports cost transparency, using comparable methodologies, including FX conversion rates and other fees, along with the applicable terms and conditions.
- The service level agreement facilitates the exchange of financial messages and processing status updates via secure networks and communication channels (including APIs) when appropriate.

Box 8

### Guiding questions for transparency and efficiency

- How are the roles and responsibilities for standard processing, as well as exception handling, defined in the service level agreement? To what extent do they avoid the duplication of efforts?
- Does the service level agreement suggest any practices for the processing of complementary services, such as FX conversion and fee calculation, and value added services, such as pre-validation, transaction tracking and credit notification?
- How do participants disclose the various fees they charge as part of their cross-border payments service, including FX conversion rates and costs, along with the applicable terms and conditions, including liability and use of customer data? Do they use comparable methodologies?

- What is the minimum set of (structured) data defined by the service level agreement and is their use in the message formats for the respective payment instruments defined?
- How does the service level agreement facilitate the exchange of financial messages and processing status updates via internationally recognised secure networks and communication channels (including APIs)?

Source: CPMI.

## 4.7 Recommendation 7: Timeliness and finality of settlement

***The service level agreement includes legally validated provisions that ensure availability of funds for the payee and inter-PSP finality across jurisdictions within an adequate time frame (preferably intraday or in real time, at a minimum by the end of the value date).***

Key features for consideration for all payment arrangements

- The service level agreement defines a minimum set of requirements for the availability, performance and resilience of cross-border payment clearing and settlement processes.
- The service level agreement has clearly defined and legally validated provisions when a payment is considered final for the payee and between participants.
- The service level agreement defines acceptable settlement arrangements and/or settlement agents and the responsibilities among actors associated with the different types of arrangements.

Box 9

### Guiding questions for timeliness and finality of settlement

- What are the requirements defined by the service level agreement for the availability, performance and resilience of cross-border payment clearing and settlement processes?
- How is the point in time defined when funds are to be made available to the end user and a cross-border payment is deemed to be settled with finality between the intermediaries involved in the cross-border payment?
- What are the procedures to agree on settlement arrangements and/or settlement agents and the responsibilities among actors associated with the different types of arrangements?

Source: CPMI.



## 5. Conclusions

Payment arrangements play an important role in cross-border payments and – if properly designed – can alleviate existing frictions in the cross-border space and promoting their safety, thus supporting the G20 targets on enhancing cross-border payments. This report introduces recommendations, key features and guiding questions that could inform entities involved in cross-border payment arrangements when reviewing their current service level agreements, as well as agreeing on new ones.

While the structure and content of payment arrangements may differ, as well as their geographic scope and use cases, their agreed service levels typically cover a similar set of elements. The high-level recommendations and key features developed in this report can contribute to increased harmonisation of cross-border payment service level agreements across these elements. In addition, this report highlights the development of so-called one-leg out (OLO) payment instrument rulebooks, which focus on payments with a “cross-border leg”. Such payment arrangements are an important development and can introduce harmonised service levels for cross-border payments and particularly cross-border fast payments. Their uptake and possible alignment could be monitored and facilitated going forward.

The recommendations are not meant to be used for assessing the adequacy of a service level agreement or payment arrangement as a whole with relevant laws and regulations. However, governance entities, participants and overseers of new or existing cross-border payment arrangements, especially those with significant growth potential, are encouraged to consider the recommendations.

Cross-border payment arrangements, especially interlinking arrangements between FPS, are a priority under the G20 cross-border payments programme. To support this priority, the CPMI has committed to the G20 Presidency to work on governance and oversight for interlinking arrangements. To deliver on this commitment, the CPMI has established a dedicated workstream. The findings of this report will inform the work of the CPMI in developing the framework in 2024. Finally, the CPMI will also feed the findings of this report into its ongoing exchange with industry stakeholders, such as the cross-border payments interoperability and extension taskforce.

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<sup>16</sup> The Committee on Payment and Settlement Systems changed its name to Committee on Payments and Market Infrastructures in September 2014. References to reports published before that date use the Committee's old name.

## Annex 1: CPMI workstream composition

### Cross-border payments interoperability workstream

#### Co-Chairs

Nathalie Aufauvre (Bank of France) [until December 2022]

Claudine Hurman (Bank of France) [since January 2023]

Claudio Impenna (Bank of Italy)

#### Members

National Bank of Belgium	Axel Van Genechten [until March 2023]
Central Bank of Brazil	Alessandro Fraga [until March 2023] Janaina Attie [until March 2023]
Bank of Canada	Ariel Olivares
European Central Bank	Andreja Birsa Writzl Luca Colantoni [until October 2022]
Bank of France	Pierre Berger Silvia Gabrieli Leo Amsellem Nathan Crespy Nicolas Peligry [until August 2022] Jérémy Cuny [until March 2023] Alexandra Madeline [until February 2023]
Deutsche Bundesbank	Inga Schultze David Ballaschk
Hong Kong Monetary Authority	Stanley Chan Keith Mok
Reserve Bank of India	Amitabh Khandelwal Ashwin Gohte Vivek Bansal [until March 2023]
Bank Indonesia	Gemala Srihati Franz Hansa Jultarda Hutagalung Nadya Astrid Puspitaningrum
Bank of Italy	Luca Arciero [until March 2023] Giovanni Maria Sabelli
Bank of Japan	Masami Inoue [until June 2023] Airi Horimoto [until September 2022] Yuko Morikawa Maya Okamoto

Bank of Korea	Jisoon Park Suyeon Bang
Monetary Authority of Singapore	Nelson Chua Wei Jian Toh
South African Reserve Bank	Magedi-Titus Thokwane Pearl Malumane
Swiss National Bank	Basil Guggenheim [since March 2023]
Bank of England	Lisa Robinson-Hammond Anne Koch Catherine Breen [until May 2023]
Board of Governors of the Federal Reserve System	Anjana Ravi [until May 2023] Nick Ehlert [until May 2023]
Federal Reserve Bank of New York	Sishush Maru [until May 2023]

### **International organisations**

Basel Committee on Banking Supervision	Stefan Hohl
Bank for International Settlements Innovation Hub	Ben Dyson
Financial Stability Board	Kris Natoli
International Monetary Fund	Tayo Tunyathon Koonprasert André Reslow
World Bank Group	Maria Teresa Chimienti Gynedi Srinivas

### **Secretariat**

CPMI Secretariat	Thomas Lammer Raul Morales [until December 2022]
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## Annex 2: Summary of the 2016 CPMI recommendations on correspondent banking

### Recommendation on the use of “know-your-customer” (KYC) utilities

The use of KYC utilities by respondent and correspondent banks – provided that they store at least a minimum set of up-to-date and accurate information – could be supported in general as an effective means of reducing the burden of compliance with customer due diligence requirements for banks active in the correspondent banking business. Relevant standard setters such as the International Organization for Standardization (ISO) may wish to consider defining a standardised minimum set of information and data (including the format) that all utilities should collect and that all banks must be ready to provide to other banks which require the information and data.

### Recommendation on the use of the legal entity identifier (LEI) in correspondent banking

In addition to the general promotion of LEIs for legal entities, relevant stakeholders may consider specifically promoting the use of the LEI for all banks involved in correspondent banking as a means of identification that should be provided in KYC utilities and information-sharing arrangements. In a cross-border context, this measure should ideally be coordinated and applied simultaneously in a large number of jurisdictions. All authorities and relevant stakeholders may wish to consider promoting business identifier code (BIC)-to-LEI mapping facilities, which allow for routing information available in the payment message to be easily mapped into the relevant LEI.

### Recommendation on information-sharing initiatives

To facilitate compliance with Financial Action Task Force (FATF) customer due diligence recommendations (i) the use of information-sharing mechanisms (if they exist in a given jurisdiction and data privacy laws allow this) for knowing your customers’ customers could be promoted as the first source of information by default; and (ii) this could be complemented bilaterally with enhanced information should there be a need. In order to support information-sharing in general, the respondent bank may include provisions in its contractual framework with its customers (eg in the terms and conditions or in a supplementary agreement) which allow the bank to provide such general information on request to other banks for anti-money laundering and countering the financing of terrorism (AML/CFT) compliance purposes.

### Recommendation on payment messages

It is recommended that banks decide individually which payment method best meets their own and their clients’ needs and agree with other banks involved on the method to be used. The documents should include information about the data that should be contained in payment messages as well as the data fields that should be used to provide relevant information for conducting customer due diligence.

### Recommendation on the use of the LEI as additional information in payment messages

The use of the LEI as additional information in payment messages should be possible on an optional basis in the current relevant payment messages. Also, as part of a potential future migration to message formats based on the ISO 20022 standard, relevant stakeholders (ie ISO and Swift) are encouraged to consider developing dedicated codes or data items for the inclusion of the LEI in these payment messages.





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