January 20, 2025

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

By email to cpmi@bis.org

Dear Dr. Rice,

PIE taskforce consultation

The Institute of International Finance (**IIF**) writes to respond on behalf of its members to the Committee on Payments and Market Infrastructures (**CPMI**) consultation to seek industry views on how best to enhance cross-border payments.

As you know, the IIF strongly supports the objectives of the G20 roadmap for cross-border payments (**Roadmap**) and broader payments program, and plays an active role in helping to shape and implement the roadmap as a member of the CPMI's Payments Interoperability and Extension (**PIE**) taskforce and of the Financial Stability Board's (**FSB's**) Legal, Regulatory and Supervisory (**LRS**) taskforce, as well as through the submission of detailed comment letters and our convening of ad-hoc round tables and other events such as the Global Payments Forum. This consultation has stimulated considerable engagement and input from a range of our members that are active in the payments space, convened through the IIF's cross-border payments task group (**XPTG**).

In **Annex 1**, we set out responses to the consultation questions. In broad terms, some of the key themes addressed are as follows:

Which private sector initiatives or solutions could help to support enhancing cross-border payments?

The overall picture is of an industry showing great dynamism and where many competing business models are exploring the space of available opportunities to improve end-user experiences and outcomes. These initiatives target segments such as large value, retail, or remittance, and it is unrealistic to assume any one solution will solve for all frictions. By way of example, we call out a number of initiatives in progress globally or regionally including:

- enhancements to the existing correspondent banking infrastructure and large-scale payments infrastructure to improve speed, transparency and accessibility, and reduce the cost, of cross-border payments, including the ISO 20022 roll-out;
- a range of public-private and private sector initiatives that are experimenting with forward-leaning payments infrastructure models including multi-asset ledgers and clearing/settlement infrastructure;
- card schemes continuing to enhance their offerings with direct benefits for cross-border payers and payees, including specialized same-day payment services targeting business-to-business transactions;
- increasing opportunities for public-private partnerships to support the continued advancements of faster payment systems, including through One-Leg-Out (**OLO**) schemes which may be less complex to realize than full interlinking models;
- non-bank payment service providers (**PSPs**) emerging as significant players in enhancing cross-border payments, offering a range of industry solutions in

competition with, and often also in partnership with, correspondent banks and card schemes;

- stablecoins and other digital assets continuing to provide alternatives for users who wish to take advantage of speed and cost advantages in cross-border payments.

What frictions or challenges do you think have not been sufficiently dealt with in the G20 cross-border payments programme?

Here, some key points raised include:

- duplicative AML/CFT and sanctions compliance checks, which are both costly and time-consuming. The drivers include a combination of a lack of clarity on the roles of the many different PSPs in the typical payment chain, and an inability of PSPs to place reliance on (and thus be shielded from liability for) checks conducted by similarly regulated PSPs in other jurisdictions;
- frictions arising from exchange and capital controls are estimated to contribute greatly to the high cost of payments in particular areas, including Sub-Saharan Africa and South Asia, as we continue to understand that the last mile is the real pain-point for cross-border payments;
- Financial Action Task Force (**FATF**) grey-listing of jurisdictions has also been mentioned by some of our members as contributing to higher costs in some jurisdictions, including Sub-Saharan Africa; official sector actors should acknowledge this link and maintain momentum as far as possible, and via a risk-based approach, to reduce the number of such jurisdictions over time.

What do you see as priorities to achieve safer and more efficient cross-border payments?

Here, we suggest concerted efforts around an agenda including:

- continued or increased focus on global data standards, including the ISO 20022 roll-out in non-card payments; data frameworks, data sharing and data localization; pre-validation APIs; and, OLO opportunities and issues arising;
- beyond these priority actions, continued research might be considered for clarification of roles and responsibilities of PSPs in modern payments chains; the liability of PSPs placing reliance on checks performed by similarly regulated PSPs in other jurisdictions; cross-border repatriation of funds; standards for digital identity; and sanctions regimes;
- other topics worthy of study include the 1250% risk weighting for certain crypto-assets, which may have the effect of limiting exploration of opportunities to leverage other aspects of blockchain-based solutions that could address some cross-border payment challenges, and quantum preparedness in the banking and payments spaces.

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

Yours sincerely,

Jessica Renier
Managing Director, Digital Finance

Annex

Answers to consultation questions

1. Which private sector initiatives or solutions could help to support enhancing cross-border payments?

- There are a large number of private sector initiatives (global and/or regional in nature) which are already enhancing cross-border payments or have the potential to do so.
- The most obvious are the many enhancements to the existing correspondent banking infrastructure and large-scale payments infrastructure to improve speed, transparency and accessibility, and reduce the cost, of cross-border payments. Examples include:
  - **ISO 20022** roll-out – by November 2025, instructional message types are due to be phased out in favor of ISO 20022 equivalents at the end of the coexistence period, with other non-instructional message types deprecated. This will be fundamental to achieving the G20 targets in the non-card payments domain. (There is already widespread adoption of ISO 8583 in the card payments domain.)
  - **Payment Pre-validation** – validating account numbers and providing specific country data/purpose codes.
  - **Swift gpi** – improved transparency and traceability for payments.
  - **Swift Go** – low-value cross-border payments direct from bank accounts.
  - **Transaction Screening** – screening incoming/outgoing payment messages against up-to-date sanctions lists.
- A range of public-private and private sector initiatives are experimenting with forward-leaning payments infrastructure models including multi-asset ledgers and clearing/settlement infrastructure.
  - **Project Agorá** brings together the Bank for International Settlements (**BIS**) and seven central banks in partnership with a large group of private financial institutions convened by the IIF. The project builds on the unified ledger concept as proposed by the BIS and is investigating how tokenized commercial bank deposits can be seamlessly integrated with tokenized wholesale central bank money in a public-private programmable core financial platform. This could enhance the functioning of the monetary system and provide new solutions using smart contracts and programmability, while maintaining its two-tier structure.[1] The primary area of exploration will be to increase the speed and integrity of international payments, while lowering costs.[2]
  - **Regulated Liability Network** is a proposed financial market infrastructure (FMI), operating a shared ledger with central bank money, commercial bank money, and electronic money on the same network. The purpose of the RLN is to create a new substrate for sovereign, regulated currencies that enables

[1] BIS (updated 16 September 2024), Private sector partners join Project Agorá
[2] BIS (3 April 2024), Project Agorá: central banks and banking sector embark on major project to explore tokenisation of cross-border payments

innovation around commercial bank money and is not just limited to central bank liabilities.[3]
    - **Project Guardian** is a collaborative initiative between policymakers and the financial industry to enhance liquidity and efficiency of financial markets through asset tokenization.[4]
- Card schemes continue to enhance their offerings with direct benefits for cross-border payers and payees:
    - Card issuers provide comprehensive cross-border payment solutions with reach across most countries, such as **Mastercard Send** and **Visa Direct**, servicing many more endpoints globally (cards, bank accounts, and digital wallets) than there are individuals.
    - Services such as **Visa B2B Connect** and **Mastercard Move Commercial Payments** are specialized same-day payment services targeting business-to-business transactions, with broad geographic coverage, streamlining commercial cross-border payments and international trade finance.
- Non-bank PSPs have emerged as significant players in enhancing cross-border payments, offering a range of industry solutions in competition with, and often also in partnership with, correspondent banks and card schemes.
    - Industry leaders such as **PayPal** and **Stripe** continue to grow their cross-border ecommerce and personal payments volumes and functionalities.
    - Challengers have gained banking licenses in some geographies and adopted cross-border netting strategies to minimize cross-border payments flows and speed up credits, which may also bring compliance challenges for banks and other intermediaries. Along with remittance specialist fintechs, they are providing increased competition to traditional cash-based remittance services.
    - Money transfer operators like **Mama Money**, **HelloPaisa**, and **Mukuru** provide essential remittance services, particularly in regions with lower banking penetration.
- Increasing opportunities for public-private partnerships to support the continued advancement of faster payment systems can help promote security, trust, and efficiency in cross-border payments. Although many of these faster payment systems are operated by central banks (e.g. **FedNow**,[5] the Eurosystem's TARGET Instant Payment Settlement (**TIPS**)), others take the form of public-private partnerships or well-established industry-owned utilities (e.g. NY Clearinghouse's **RTP system**).[6]
    - Interlinking of faster payment systems is also being further explored, such as through public initiatives like **Project Nexus** (now in its operational phase) and potentially through privately owned or public-private utilities. Private-sector participation in and/or partnerships with these initiatives can help maximize their potential benefits.
    - **One-Leg-Out (OLO)** schemes built on domestic faster payment systems are also very promising, and may be less complex to realize than full interlinking models. For example, the emerging European Payments Council OLO Instant

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[3] UK Finance, Regulated Liability Network

[4] Monetary Authority of Singapore, Project Guardian

[5] The IIF is supportive of separation between oversight and operations, and funding on the basis of cost recovery, for such systems; these characteristics are present in FedNow.

[6] Bretton Woods Committee (Dec. 2024), A Dual Strategy to Transform Cross-Border Payments

Credit Transfer scheme, OCT Inst,[7] shows promise for international SEPA payments, as demonstrated by **Iberpay's** proof of concept for cross-border transactions with Latin American countries.
    - While many cross-border payment initiatives focus on mandatory currency conversion, there is value in supporting solutions that accommodate both converted and **single-currency transactions**, particularly to serve corporate clients who maintain foreign currency accounts and prefer to pay in destination currencies.
    - Examples of private sector utilities enhancing regional payments integration include **TCIB** (Transactions Cleared on an Immediate Basis), BankServeAfrica's real-time 24/7 cross-border payments rail in the Southern African Development Community (SADC) region.
    - The **EPI** (European Payments Initiative) consortium, launched by banks across France, Germany, and Benelux countries, has introduced the "wero" P2P payment wallet, demonstrating how regional collaboration can enhance cross-border payment capabilities.
    - **EuroPA,** the European Payments Alliance, is aiming to bring mobile payment interoperability to more than 45 million customers and 182 financial institutions from next year, with ambitions to expand beyond Italy, Spain and Portugal.[8]
- Stablecoins and other digital assets continue to provide alternatives for users who wish to take advantage of speed and cost advantages in cross-border payments, in various cases.
    - **JP Morgan's Kinexys** (formerly Onyx) platform leverages blockchain technology for institutional cross-border payments and settlement.
    - Regulated single-currency stablecoins such as **Circle's USDC** are more widely available for retail use and have demonstrated consecutive years of processing cross-border transactions at scale. Stablecoin-based remittances have grown rapidly since 2020, including across Latin America, where they have also integrated via local banks with national real-time settlement systems. Major PSP-issued stablecoins such as **PayPal USD**[9] reflect increasing expansion and adoption of stablecoins vice fiat as a cross-border payment tool.
    - Layer 2 blockchain solutions like **Coinbase's Base** enable stablecoin transfers and settlement for less than one cent on the dollar (not allowing for AML compliance costs), demonstrating potential cost and speed efficiencies.
    - **Ripple's** network provides an alternative infrastructure for cross-border payments using XRP, an unbacked (floating) digital asset.

2. What frictions or challenges do you think have not been sufficiently dealt with in the G20 cross-border payments programme?

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[7] European Payments Council, One-Leg Out Instant Credit Transfer
[8] Finextra (14 November 2024), European mobile payment operators enable interoperability
[9] PayPal USD is a stablecoin that is fully-backed 1:1 by U.S. dollar deposits, short-term U.S. treasuries, and similar cash equivalents. PYUSD aims to bridge traditional finance, consumer payments, and onchain finance by facilitating fast, efficient payments.

In our view, the following frictions and challenges have not been sufficiently dealt with in the G20 cross-border payments program.

- **Duplicative AML/CFT and sanctions compliance checks**. In a single payment chain, the various intermediaries or correspondent banks may each conduct multiple KYC/AML or sanctions compliance checks on the same persons, entities or transactions, given their limited ability to rely on each other consistently with their home supervisors' expectations, regulatory and legal obligations, or risk appetite. This is both costly and time-consuming.
    - While addressing fragmentation in AML/KYC regulation is important (see below), unclear roles and responsibilities, and the inability to rely on similarly regulated downstream or upstream counterparties, need to be separately addressed. In answer to question 3, we suggest possible ways to address these.
    - Until these issues are clarified and addressed, opportunities to adopt technical solutions such as KYC utilities, blockchain-based KYC attestations, or cross-border digital identity schemes will continue to face hurdles.
    - The very high reputational cost of false negatives versus the less visible cost of false positives (failed payments, business foregone) combined with the lack of such utilities creates incentives for over-investment in KYC at the system-wide level.
    - As to **fragmentation** in AML/KYC regulation, we believe more can and should be done to ensure that FATF members minimize "gold plating" or inconsistent and divergent implementation of FATF standards, which creates hurdles to achieving the other Roadmap targets.[10] AML/KYC compliance responsibilities should be applied across the payments ecosystem on a risk-based approach and each organization (whether bank or non-bank PSP) should bear its own compliance responsibilities. One such example would be a requirement to conduct AML/CFT monitoring of all transactions of clients based in or undertaken from and to a high-risk third country prior to execution, rather than post-facto.[11]
- Frictions arising from **exchange and capital controls** are estimated to contribute greatly to the high cost of payments in particular areas, including Sub-Saharan Africa and South Asia.
    - We are encouraged by and support the work that the FSB Secretariat and IMF are jointly undertaking to study the effects of exchange controls on the timelines of cross-border payments, under the aegis of the CPC. We trust that such work will lead to actionable recommendations which are, where justified, implemented in due course. We would also urge that such granular work also be undertaken on the impacts of exchange controls on cross-border payments' speed and on the impacts of both types of control on costs, as well.
    - Rather than merely taking exchange or capital controls as a given, as the CPC's work has done, governments should be encouraged to analyze the need and justification for exchange controls on a regular basis, considering their potential impacts prior to implementing or extending them. If they insist on

[10] An FATF survey of banks in October 2021 highlighted 65% of respondents believed that divergent AML/CFT rules were one of the most significant cost drivers for cross-border payments: FATF (October 2021), Cross-Border Payments Survey Results (pg. 4 and 8). Participants suggested data harmonization, data standardization, data sharing and minimizing gold-plating as responses.
[11] IIF (August 2022), G20 Roadmap to enhance cross-border payments: IIF industry position paper

imposing or maintaining such controls, they should be well-defined, their impacts should be measured *ex ante* and *ex post*, and data elements needed for administering those controls should be standardized and easily collected (e.g. in ISO and/or CPMI-compliant formats).
    - The costs of such exchange controls, including in the form of higher inward remittance and other payment costs, should be explicitly estimated and set off against the expected benefits of such regimes.
    - Such regimes contribute to low liquidity, which in turn leads to wider spreads and poor outcomes, particularly where (as in many cases) there are two FX legs involved, e.g. one into and one out of a third currency such as the U.S. dollar.
- While we are encouraged that the FSB will take forward work, along with other critical bodies relevant to the issue, on breaking down **barriers to data sharing** that impact cross-border payments[12], we encourage continued focus and steady efforts on this strategic issue from CPMI (alongside FSB), as removing data localization regulatory requirements can meaningfully reduce operational cost and risks and contribute to safer and more efficient cross-border payments.
- Additional costs arise from **auto-conversion** by intermediary banks, adding to costs (by building in an FX conversion leg without explicit instructions) and contributing to payment fails and delays, and poor user experiences.
- **FATF grey-listing of jurisdictions** has been mentioned by some of our members as contributing to higher costs in some jurisdictions, including Sub-Saharan Africa. While we appreciate FATF's recent efforts to reform its grey-listing processes to help relieve pressures on the least developed countries and focus on those countries posing greater risks to the international financial system, we also acknowledge that grey lists are key to PSPs' financial crime risk management programs. As such, all official sector actors should acknowledge the link between a jurisdiction remaining on the grey list and ongoing high costs of inward and outward remittances and other cross-border payments, and maintain momentum as far as possible, and via a risk-based approach, to reduce the number of such jurisdictions over time.[13] Banks' practices of de-risking have reduced the availability of correspondent banking services in jurisdictions perceived to have high compliance risks and costs, thereby partly disconnecting these jurisdictions from global payments systems and international payments networks.
- The impact of a **lack of competition** in FX markets, particularly in lower-liquidity currency pairs, arising from barriers to entry or regulations that shield local banks from competition, could be the subject of further study.

3. What do you see as priorities to achieve safer and more efficient cross-border payments?

We suggest that concerted efforts around the following agenda would be very beneficial.

- **Data standards:** data standardization (including moves to implement ISO 20022 messaging standards in the non-card payments domain) promises to reduce frictions, payment fails and inquiries, and speed up payments in areas such as sanctions

[12] FSB (2024), Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments: Final report
[13] FATF (October 2024), FATF changes its grey listing criteria to further focus on risk

screening, anti-fraud, open banking, and digital identity. ISO 20022 provides more structured and granular information than previous proprietary standards, which creates an opportunity for the industry to re-think existing approaches to screening and improve data quality and efficiency in the non-card payments domain.

- **Data frameworks:** including by growing the size and timeliness of training and production data sets, standardized data sharing gateways across borders and between sectors (such as ongoing multistakeholder efforts to operationalize data free flow with trust) can help improve the power of AI-powered fraud and sanctions screening models, enabling customers to access a wider range of safe and secure payment products and services from different providers, while ensuring data protection and privacy. In this regard, we are very encouraged that the FSB will take forward work, along with other critical bodies relevant to the issue, on breaking down **barriers to data sharing** that impact cross-border payments, while having consideration for requisite jurisdictional privacy and confidentiality requirements.[14] In particular, removing data localization regulatory requirements is a strategic priority that can meaningfully reduce operational cost and risks, and contribute to safer and more efficient cross-border payments.
- **Pre-validation:** PSPs and payment system operators to support the implementation and use of payments pre-validation APIs was identified as a possible action on payment system interlinking in the responses to the PIE's 2023 survey. Members consider the issue remains a high priority in a broader context. [15]
- **One Leg Out:** Members suggest that exploration of OLO opportunities and issues arising could be taken forward in the framework of the PIE.

Beyond these priority actions, research assessing the benefit of potential global standards could be considered for:

- **Clarification of roles and responsibilities** of different PSPs in modern payments chains. As a guiding principle, responsibilities should be allocated across the payments ecosystem on a risk-based approach and each organization should bear its own compliance responsibilities. We note the recent guidance on payment transparency roles and responsibilities published by the Wolfsberg Group as a useful example.[16] Regulatory and supervisory activity building on this sort of work would be very helpful over time.
- The **shielding of PSPs in appropriate circumstances from liability** for placing reliance on checks performed by other parties in the chain would dramatically reduce the incidence of duplicative checks. For example, friction could be reduced without weakening control effectiveness if a correspondent bank were shielded from liability for placing reliance on checks conducted by an equivalently regulated respondent bank, or another PSP that is subject to appropriate regulatory and supervisory oversight. The issue could naturally lie with FATF (so far as it concerns AML/CFT issues); alternatively, this is possibly something that the United Nations Commission on International Trade Law (**UNCITRAL**) could be tasked with

[14] FSB (2024), Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments: Final report
[15] CPMI (20 June 2023), PIE industry taskforce presentation
[16] Wolfsberg Group (2024), Payment Transparency Roles and Responsibilities

taking forward; alternatively, the OECD, possibly building on previous work of the IIF in this space, may be equipped to take it forward.[17]

- A new global standard for countries to implement legal frameworks that facilitate **cross-border repatriation of funds** and supporting data sharing and traceability (enabling victims to trace and recover their funds). This could enable cross-border payments between compliant jurisdictions to potentially carry a risk profile more akin to domestic payments.
- The potential benefits of harmonizing **standards for digital identity** in cross-border payments, both B2X and P2X, are such that some focused attention on these issues by CPMI or another international standard-setter would be beneficial. As individual jurisdictions come up with separate digital identity schemes for individuals, cross-border recognition and interoperability are still in their infancy.
- In that connection, we are encouraged that frictions in cross-border payments arising from compliance with **uncoordinated sanctions regimes** have been recognized by the FSB as worthy of concentrated attention. Given the proliferation of sanctions regimes and the lack of standardized means of identifying individuals and legal entities (for those entities that do not have an LEI or other unique identifier), and given the huge reputational or regulatory costs of false negatives, PSPs will continue to over-invest in sanctions screening pending solutions being found.
- Some members consider the Basel Committee's proposed **1250% risk weighting** for bank assets based on permissionless distributed ledger technology may have the effect of limiting exploration of opportunities to leverage blockchain-based solutions that could address key cross-border payment challenges. Specifically, permissionless blockchain networks could enable more efficient integration of identity verification, AML compliance, and payment settlement through smart contracts, rather than reinforcing existing inefficiencies in traditional cross-border payment infrastructure. Further analysis of risk management frameworks for permissionless ledgers could help unlock these benefits while ensuring safety and soundness.

Lastly, **quantum preparedness:** the transition to quantum-resistant cryptography (QRC) will be an involved process for all industries. While technical standard-setters such as the U.S. National Institute of Standards and Technology (NIST) are leading, raising awareness of post-quantum security risk and encouraging industry to proceed with transition efforts may be beneficial.

[17] IIF (2022), Principles for Digital Trust Networks (see Annexes 1 and 2 in particular)