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TO:

Financial Stability Board
Via email: fsb@fsb.org

Date: 16 July 2021

Re: Targets for Addressing the Four Challenges of Cross-Border Payments

Dear Sirs,

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the Targets for Addressing the Four Challenges of Cross Border Payments consultation by the Financial Stability Board (FSB) launched on 31 May 2021.

The Global Financial Markets Association's (GFMA) Global Foreign Exchange Division (GFXD) was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 23 global foreign exchange (FX) market participants¹, collectively representing a significant portion of the FX inter-dealer market. Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

Our response is in relation to cross border wholesale payments within the global, wholesale FX markets only.

Executive Summary

We suggest that wholesale cross border payments should consider both i) situations in which both counterparties to the transaction are in different jurisdictions and ii) situations in which both counterparties to the transaction are in the same jurisdiction but are settling in a foreign currency.

¹ Bank of America, Bank of New York Mellon, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS and Wells Fargo.

We suggest that the Speed Target is more suited to the retail and remittance market segments rather than wholesale. The speed of when wholesale payments settle is generally not a market consideration, and the vast majority of wholesale payments settle on the contracted Settlement Date.

We recommend instead that the time at which the recipient of the payment can determine that the payment has been received (i.e. with Settlement Finality²) is of more importance to wholesale payments. We therefore recommend that the FSB sets a target to accelerate the time at which the final receipt of the payment can be relied upon by the ultimate recipient and suggest that this should occur on Settlement Date.

We suggest that a 2027 delivery target is dependent on all market participants, including Central Banks, being able to deliver against the goals as set by the FSB. Given that these goals have not yet been established, the scale and ability to deliver by 2027 is unclear.

1. What are your comments on the key design features applied in designing the targets (section 1)? Are there any design features that you consider are missing?

For wholesale payments, we agree with the design features as listed in the consultation paper and suggest that the reduction in systemic risk is also a consideration.

2. Do you agree with the market segments as described? Are they sufficiently clear? Do they reflect the diversity of cross-border payments markets, while providing a high-level common vision for addressing the four roadmap challenges?

As noted in the market segment descriptions, some other high value payment makers (e.g. high net worth individuals and corporates, especially multi-national corporates) can rival financial institution wholesale market participants in terms of the size of the cross-border payments made. We suggest that the inclusion of these high value payments (including any made by retail clients) within the retail categorization could present challenges (e.g. a faster retail target could provide difficulties with a high value payment) and instead suggest that the FSB further investigates the inclusion of these flows within the wholesale segment.

3. Do you have any comments on the target metrics proposed?

For wholesale payments, we have the following comments:

Cost – We support the FSB in not setting a target for wholesale FX payments.

Speed – We suggest that the Speed Target is more suited to the retail and remittance markets segments, and not wholesale and instead propose the following text for the Speed Target:

‘Large majority of cross border wholesale payments to be credited and reconciled on Settlement Date so that the receipt can be relied upon with finality.’

Feedback from our members suggests that the vast majority of wholesale payments occur on the date at which they are contracted to do so (known as the Settlement Date), and that Speed is not currently deemed to be an issue. The extremely small number of payments which do not occur on the contracted Settlement Date are usually paid on the next business day with good value (i.e. any costs due to the delay, such as interest are paid) and are normally the result of an operating error.

² <https://www.bis.org/publ/bcbs241.pdf>

The Settlement Date of a wholesale FX transaction is the date agreed and contracted between the two counterparties to the transaction, on which there is to be an exchange of payments between counterparties in each of the currencies contracted for exchange. The Settlement Date is agreed during the negotiation and execution of the transaction and forms part of the pricing of the transaction. Settlement Date is a long-standing and legally defined global contract term, for example as defined in the ISDA FX and Currency Option Definitions³. Conversely, retail payments and remittances do not generally have an agreed Settlement Date.

Operationally, wholesale payments are normally (either automatically or manually) instructed for settlement one day prior to the Settlement Date (as illustrated in Figure 1.) This helps the counterparties to the transaction plan and project their liquidity requirements – this is when they are considered to have entered the payments system and interpreted by our members to have been initiated (noting fn5 of the consultation paper). There may be some variation to this depending on the currency traded and transaction tenor, for instance some transactions are executed and contracted to settle on the same day. Upon instruction, additional internal anti-money laundering/know your client checks are performed as well as additional checks for high value payments.

Once these additional checks are complete, an automated SWIFT⁴ message will either be queued to be sent, or is sent immediately to the Correspondent Bank (also known as the Nostro Agent i.e. the bank providing a Nostro Account⁵) to debit funds from the Correspondent Bank account on Settlement Date – this message will then join a queue of other messages to be processed by the Correspondent Bank on Settlement Date. A similar process occurs when a payment is made direct via an account held at a Central Bank, rather than an account at a Correspondent Bank.

On Settlement Date, the Correspondent Bank will then release the queued payments, normally in the order they are received, considering the availability of liquidity or credit facilities. Liquidity balances tend not to be left on accounts as firms like to optimize the available liquidity, although this may depend on the specific Central Bank and national currency. The time period in which a Correspondent Bank can release payments is dependent on several factors, including, but not limited to, the operating hours and practices of the Central Bank in which national currency is being paid, as well as the contracted service terms between the Correspondent Bank and its client.

³ <https://www.isda.org/book/1998-fx-and-currency-option-definitions/>

⁴ <https://www.swift.com/>

⁵ <https://www.bis.org/publ/bcbs241.pdf>

Figure 1: Stylised timeline for the settlement of a wholesale FX transaction⁶

Wholesale FX Transaction: A sells \$140 to B in exchange for £100. Trade Date 12 July. Settlement Date 14 July			
	13 th July	14 th July	15 th July
Counterparty A (HK Bank)	Swift message sent to inform CB1 to transfer \$140 to B's account at CB2 on 14 July		A reconciles Swift message to confirm \$ debit reflected on books and records
\$ Correspondent Bank 1 (CB1)		CB1 checks that sufficient funds are available or a suitable credit line exists CB1 instructs the Fed to transfer \$140 from CB1's account with the Fed to CB2's account with the Fed	Swift message sent to inform A that \$140 has been paid to B
\$ Fed CB1 Account			
\$ Fed CB2 Account		Fed debits CB1's account \$140 and credits CB2's account \$140	
\$ Correspondent Bank 2 (CB2)		CB2 instructs the Fed to receive onto CB2's account with the Fed \$140 from CB1's account with the Fed	Swift message sent to inform B that \$140 has been received from A
Counterparty B (EU Bank)	Swift message sent to inform CB2 to receive \$140 from A's \$ account at CB1 on 14 July		B reconciles Swift message to confirm that \$ credit reflected on books and records

It is also worth considering that the Correspondent Bank receiving the payment will also perform additional checks which could delay the application of the payment to the relevant account, noting these checks may vary by jurisdiction. This delay could be especially pertinent if attempting Payment versus Payment (PvP)⁷ settlement.

On Settlement Date, the Correspondent Bank will likely provide a projection of the liquidity required during the day; this will help the counterparty to ensure that funds are available to meet its payment obligations. This is a requirement of the Global Code⁸, specifically Principle 53 which states:

Principle 53: Market Participants should have adequate systems in place to allow them to project, monitor, and manage their intraday and end-of-day funding requirements to reduce potential complications during the settlement process.

Settlement Finality is a significant consideration for wholesale payments, especially given their typically large notional size; each counterparty will normally reconcile their Correspondent Bank account statements on Settlement Date +1 to determine if their expected payment has been received with finality.

Instead of Speed, we suggest that for wholesale payments the FSB recommends accelerating the time at which the final receipt of the payment can be relied upon by the ultimate recipient, and target that this final 'books and records' recognition should occur on Settlement Date and sets a suitable target to encourage such a goal. This would enable both counterparties to a wholesale FX transaction to know that they have received the required funds with finality during Settlement Date, rather than as per today's processes sometime after the Settlement Date.

Such an approach would enable any potential fails to be identified, investigated and rectified through the normal course of business in a timelier manner during Settlement Date. We expect this would

⁶ For ease, Figure 1 illustrates the settlement of the USD part of the FX transaction only. The settlement of the GBP will follow a similar timeline and set of processes

⁷ <https://www.bis.org/publ/bcbs241.pdf>

⁸ https://www.globalfxc.org/docs/fx_global.pdf

require coordinated change across market participants, Central Banks, Correspondent Banks, and networked technologies, however we believe this would help to promote the associated Principles in the Global Code, such as:

Principle 54: Market participants should perform timely account reconciliation processes.

Principle 55: Market participants should identify settlement discrepancies and submit compensation claims in a timely manner.

Such change will also result in reduced liquidity, operational and market risks, and increased credit benefits – these credit benefits being of value to corporates and other end-users who will have increased access to funds for investment purposes. We also expect that this change will lead to the creation of new technologies which will enable both increased automation and increased efficiencies, especially as payments move towards real-time settlement.

We also believe that Correspondent Bank account reconciliations performed on Settlement Date (as opposed to after Settlement Date) are a precursor to the use of Central Bank Digital Currencies, or any other technologies that may allow for real-time FX payments, as we stated in our 2020 paper⁹:

Nostro Account Statements

Statements from Nostro providers showing daily activity are usually sent towards the end of Settlement Date and reconciled accordingly to identify any payments which have not been made or received. The point of reconciliation allows the movement of Central Bank monies to be evidenced, enabling the account holder to deem that settlement finality has occurred. Advancements in technologies are expected to enable this process to move towards real-time reconciliation of the movement of Central Bank monies, ultimately building to the determination of real-time settlement finality based on a single, referenceable universal timestamp, which will ensure certainty of money ownership amongst participants in various value chains who may be rapidly transferring goods, service and monies to each other.

Whilst we understand that the delivery of some of the other building blocks (e.g. 9, 10, 11, 12, 13, 17, 18 and 19) could result in the ability to settle more wholesale payments on a PvP basis (or even real time on trade date at the time of trade execution), it is not entirely clear that the dependencies to enable this will be met, for instance:

- Are all market participants, including Central Banks, able to deliver against the building block?
- Are all market participants able to leverage the perceived benefits of the building block, or will they even choose to leverage any perceived benefits?
- What new liquidity and operational risks will be introduced by the building block and are these offset by any perceived benefits?
- Will the building block result in a more effective and cost-reduced payment?

Whilst it can be assumed that the market will deliver against the building blocks per the FSB's direction, the above questions have not yet been answered. For example, many Central Banks currently operate a batch process, where payments are stored and released at set times during the day, rather than based on available liquidity – this will be required to change, including those Central Banks outside of the G20.

⁹ <https://www.gfma.org/wp-content/uploads/2020/03/expanding-pvp-opportunities-march-2020.pdf>

Finally, we suggest that any changes that the FSB recommends are carefully considered in light of well established, and existing industry-wide processes which are used to reduce Principal Risk¹⁰, such as CLS¹¹.

Access – Whilst BIS reports that Correspondent Banks are reducing their offerings¹², we do not believe that it is appropriate for wholesale market participants to be required to have multiple Correspondent Banks for each currency. Whilst market participants are required to have plans to ensure they can meet their obligations during a contingency event, it is not reasonable, given the level of payment automation (e.g. via the use of standard settlement instructions), the degree of liquidity management and the number of payments impacted, to expect wholesale market participants to utilise multiple Correspondent Banks per currency on a daily basis.

There is benefit in reducing Principal Risk, for example via the use of CLS, and we support the FSB in promoting the use of PvP where possible. However, there are currently situations where payments cannot be made on a PvP basis, either because the currency is not eligible for CLS or other PvP solutions, or because the transaction itself is not eligible, for instance if a counterparty does not have access to CLS or another PvP solution.

We support the FSB stating that there should be at least one reliable option to PvP wholesale payments. However, the use of multiple solutions could incur additional challenges, such as the requirement to post liquidity in multiple places. Given that this is deemed to be inefficient, we suggest that if multiple PvP solutions are available then they should be interoperable with each other, which will then enable greater efficiencies to be achieved.

Transparency – We agree that a minimum data set would be useful. For example, it could be that the data currently available through the SWIFT GPI¹³ process could be a good starting point. Additionally the timing of when the data is made available will drive the degree of benefit. It is also worth considering the global nature of the wholesale FX markets, as any globally consistent minimum data set should consider anti-money laundering (AML) screening and avoid providing unwarranted transparency into such screening processes.

As we note above under our comments on Speed, we suggest that for wholesale payments the FSB recommends accelerating the time at which the final receipt of the payment can be relied upon by the ultimate recipient, and suggest that this should occur on Settlement Date, and sets a suitable target to encourage such a goal.

4. Do you agree with the proposal in the definition of the market segments to separate remittance payments from other types of cross-border person-to-person (P2P) payments because of the greater challenges that remittances in some country corridors face? If so, can you suggest data sources that can distinguish between the two types?

We are not responding to this question.

5. Are the proposed numerical targets suitable? Are they objective and measurable, so that accountability can be ensured by monitoring progress against them over time?

As discussed above, we suggest that the Speed Target is more suited to the retail and remittance markets segments, and not wholesale.

¹⁰ <https://www.bis.org/publ/bcbs241.pdf>

¹¹ <https://www.cls-group.com/>

¹² https://www.bis.org/publ/qtrpdf/r_qt2003g.htm

¹³ <https://www.swift.com/our-solutions/swift-gpi>

Instead we suggest that a suitable target which would improve the efficiency of wholesale payments should be a new target to accelerate the time at which the final receipt of the payment can be relied upon by the ultimate recipient and suggest that this should occur on Settlement Date.

- 6. What are your views on the cost target for the retail market segment? Does it reflect an appropriate level of ambition to improve on current costs while taking into consideration the variety of payment types within the segment? Should reference transaction amounts be set for the target (in the same way as \$200 has been set for the current UN Sustainable Development Group targets for remittances) and, if so, what amount would you suggest?**

We are not responding to this question.

- 7. What are your views on the speed targets across the three market segments? Are the proposed targets striking the right balance between the ambition of having a large majority of users seeing significant improvements, the recognition that different types of user will have different speed requirements, and the extent of improvements that can be envisaged from the actions planned under the roadmap?**

Per our response to Question 3, we suggest that the Speed Target is more suited to the retail and remittance markets segments, and not wholesale. We believe that such a target as currently set may result in significant liquidity blocks, increased costs and risks and will not yield any extra benefits to market participants.

Instead we suggest that a suitable target which would improve the efficiency of wholesale payments should be a new target to accelerate the time at which the final receipt of the payment can be relied upon by the ultimate recipient and suggest that this should occur on Settlement Date.

The determination of Settlement Finality is currently reliant on reconciling Correspondent Bank accounts which typically happens on Settlement Date +1, following the production of Correspondent Bank account statements.

We believe that bringing the reconciliation forward to Settlement Date will be of benefit to market participants, resulting in more efficient cross-border wholesale payments.

- 8. Are the dates proposed for achieving the targets (i.e. end-2027 for most targets) appropriately ambitious yet achievable given the overall time horizon for the Actions planned under the Roadmap? Would an alternative and more ambitious target date of end-2026 be feasible?**

At this time, it is unclear what the final dependencies are to ensure that any projects can be delivered on time. We suggest that until each of the relevant building blocks have defined goals and specific delivery plans to ensure any deliverables can be met by all market participants in the public and private sectors, it is difficult to set any wider time-bound targets.

- 9. What data sources exist (or would need to be developed) to monitor the progress against the targets over time and to develop and set key performance indicators? Do you have relevant data that you would be willing to share for this purpose either now or during the future monitoring?**

Apart from the data potentially available via CLS and the SWIFT network, we are not aware of any other data sources for wholesale FX payments.

- 10. Do you have further suggestions or questions about the detailed definition and measurement of the targets and their implementation? Which types of averages can be constructed to help to measure progress?**

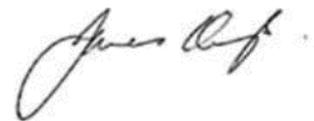
We are not responding to this question.

11. Do you have any suggestions for more qualitative targets that could express ambitions for the benefits to be achieved by innovation that would be in addition to the proposed quantitative targets for the payments market as a whole?

We are not responding to this question.

We greatly appreciate you giving us the opportunity to share our views. Please do not hesitate to contact Andrew Harvey on +44 203 828 2694, email aharvey@eu.gfma.org should you wish to discuss the above.

Yours sincerely,

A handwritten signature in black ink, appearing to read "James Kemp". The signature is fluid and cursive, with a large initial "J" and a distinct "K".

James Kemp
Managing Director
Global Foreign Exchange Division, GFMA