

FACEBOOK

July 16, 2021

Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Submission in Response to Consultative Document on Targets for Addressing the Four Challenges to Cross-Border Payments

To Whom It May Concern:

Low-cost, fast, and efficient payment services are essential for individuals and small and medium size businesses, as they drive economic growth, increasing the financial welfare of individuals, communities, and the global economy. Facebook believes that sending money should be as easy as sending a message and that everyone, everywhere should have access to the world's financial system and the digital economy. We encourage stakeholders—including existing payment service providers, new market entrants, policymakers and regulators—to foster a regulatory environment that supports innovation and enables more people around the world to gain access to critical financial services.

We believe the targets proposed in the Financial Stability Board's (FSB) consultative document (Proposed Targets) on Targets for Addressing the Four Challenges to Cross-Border Payments (Cross-Border Targets Consultation)¹ and the FSB's broader roadmap² are important in advancing this type of environment. We believe that the timelines could be accelerated further and indeed exceed the Proposed Targets. The technological capabilities already exist to substantially reduce the cost and speed of cross-border payments and remittances in many important corridors. An environment that further enables the responsible adoption of new technologies at scale, such as appropriate regulatory perimeters and investment in infrastructure to bring more people online, will also facilitate a faster timeline to the FSBs ultimate objective.

Facebook established F2 (Facebook Financial) in August 2020 to house its payments and financial services offerings, including through Facebook Payments Inc. and Novi Financial, Inc.,³ in a single business unit. Among Facebook's priorities for the work being carried out within F2 is providing low-cost, efficient, and fast cross-border payments services. Accordingly, the Proposed Targets are of central relevance and our comments focus on the aspects of the Cross-Border Targets Consultation most relevant to Facebook:

¹ FSB, Targets for Addressing the Four Challenges of Cross-Border Payments, Consultative Document (May 31, 2021), <https://www.fsb.org/wp-content/uploads/P310521.pdf>.

² See the FSB's roadmap to enhancing cross-border payments. FSB, Enhancing Cross-Border Payments: Stage 3 Roadmap (Oct. 13, 2020), <https://www.fsb.org/wp-content/uploads/P131020-1.pdf>.

³ Both Facebook Payments Inc. and Novi Financial, Inc. are licensed as money services businesses with the U.S. Financial Crimes Enforcement Network. Facebook Payments Inc. is also licensed in 47 U.S. states, D.C., Puerto Rico and the U.S. Virgin Islands.

- Section 1 of our letter provides an overview of Facebook’s mission for its payments and financial services work, which we believe aligns with the goals of the Cross-Border Targets Consultation;
- Section 2 explains why we believe technological innovations, digital payments platforms and new payments providers operating in the payments industry are important drivers in achieving the goals of the Cross-Border Targets Consultation; and
- Section 3 provides our responses to certain of the FSB’s specific questions in the Cross-Border Targets Consultation.

1. Creating a Safe, Fast, Low-Cost, Transparent and Inclusive Payments Environment

Facebook’s payments and financial services mission is to empower everyone, everywhere to access the world’s financial system to accelerate financial inclusion and economic empowerment. As part of that, we are striving to offer services that enable users to send and receive money globally in a safe, fast, low-cost and transparent environment. Financial inclusion and making payments services available to everyone are core to this mission, and we believe technological innovation, digital payments platforms and new, non-traditional payments services providers are vital tools to facilitate access to financial services to people without traditional bank accounts or government IDs.

At the same time, we are committed to customer protection, including adhering to applicable privacy and data protection laws and regulations. We fully comply with relevant anti-money laundering and anti-terrorist financing (AML/CFT), sanctions and other safeguards to help ensure that our services are not be used for criminal or other unwanted purposes and are provided in a safe and secure manner.

Facebook’s payments and financial services mission is aligned with the goals of the Cross-Border Targets Consultation and the FSB’s broader roadmap for an enhanced global payments market. The FSB recognizes that expanded and secure payments, including remittances, “would have widespread benefits for citizens and economies worldwide, supporting economic growth, international trade, global development and financial inclusion.”⁴ We agree and fully support the FSB’s efforts in this regard.

2. Technological Innovation, Digital Payments Platforms and New Payments Providers as Drivers of an Improved Cross-Border Payments Market

In 2020, the FSB identified seven frictions that currently impede the efficiency of the cross-border payments system: (1) fragmented and truncated data formats, (2) complex processing of compliance checks, (3) limited operating hours, (4) legacy technology platforms, (5) funding costs, (6) long transaction chains and (7) weak competition.⁵ As a result of these frictions, cross-border payments today are too costly, too slow, and not available to everyone who needs them, especially in regions that could most benefit from the economic activity that access to low-cost cross-border payments and financial services could foster.

We believe more needs to and can be done. Technological innovation and new digital payments platforms could help lower costs, remove inefficiencies, and support transparency, including through the use of innovative technologies such as a distributed ledger that is publicly accessible.⁶ In addition, new, non-traditional payments providers with operations in multiple jurisdictions can operate natively across borders without relying on costly intermediary chains and local legacy systems that today are not interoperable. New interoperable digital payments

⁴ Cross-Border Targets Consultation at 1.

⁵ The FSB recently identified the decline of correspondent banking arrangements as an impediment to global access to cross-border payments. See FSB, *Enhancing Cross-Border Payments: Stage 1 Report to the G20: Technical Background Report*, at 13–22 (Apr. 9, 2020), <https://www.fsb.org/wp-content/uploads/P090420-2.pdf>.

⁶ A distributed ledger is a ledger that is shared across locations or among participants. Distributed ledger refers to ‘blockchain’ technology, the technology used to validate or authenticate data among participants on a distributed ledger.

platforms and new payments providers can make it easier for people, and small and medium size businesses to use the payments they receive to purchase goods and services and pay bills without having to withdraw balances in cash. An estimated 70 percent or more of remittances are picked up in cash, and the associated costs may add 100 to 300 basis points to remittance fees, depending on the remittance corridor and the intermediary, not to mention the time and effort of the recipient picking up the cash in person.⁷ New payments providers can also step in to address any negative impact on economic growth and financial inclusion that has resulted from years of decreasing correspondent banking arrangements.⁸ In short, we believe technological innovation, digital payments platforms, and new payments providers should work together to address the frictions to cross-border payments:

- ***Less Fragmented and Truncated Data Formats***: New digital payments platforms and new technology could settle payments across jurisdictions natively and automatically without the data issues of correspondent banking arrangements or interlinked local systems. Distributed ledger systems, for example, could create a single system (with a single data set) that entities in multiple jurisdictions could use to send payments among one another and their customers.
- ***Streamlined Compliance***: New digital payments platforms and new payments providers with operations in multiple jurisdictions could make cross-border payments directly, without the use of multiple intermediaries, each of which may process compliance checks differently thereby raising costs and limiting availability of services for end consumers. Technology companies could also partner with relevant global regulators to design and implement new digital ID schemes, which the Bank of International Settlements recently stated could “open up access to a range of digital services” while “protect[ing] against fraud and identity theft.”⁹
- ***24x7x365 Availability***: New digital payments platforms, including those built on distributed ledgers, can more easily be operated on a 24x7x365 basis globally than legacy platforms can. In addition, new payments providers with operations in multiple jurisdictions would be able to offer payments services around the clock and around the globe.
- ***Enhanced Technology Instead of Legacy Technology Platforms***: New digital payments platforms could provide enhanced processing capabilities, real-time settlement, and real-time monitoring from day one, which could address the issues resulting from legacy systems that lack these features and often rely on batch processing.
- ***Lower Funding Costs***: By shortening transaction chains, new digital payments platforms, including those built on distributed ledger technology, could help lower remittance and other retail payment fees by allowing for direct transmissions between sender and recipient. Removing intermediaries from this process would eliminate funding costs and eliminate or lessen the need for prefunding across overlapping and disjointed systems.
- ***Shorter Transaction Chains***: New payments providers with operations in multiple jurisdictions would be able to open accounts for customers in each of their jurisdictions, thereby eliminating intermediaries and significantly shortening existing transaction chains, including for remittances and P2B payments.
- ***Increased Competition***: The entry of new payments providers that leverage new digital payments platforms into the payments market could result in increased competition among new and incumbent service providers.

⁷ Visa Economic Empowerment Institute, *The Rise of Digital Remittances: How Innovation is Improving Global Money Movement* (2021), <https://usa.visa.com/content/dam/VCOM/global/ms/documents/veei-the-rise-of-digital-remittances.pdf>.

⁸ The FSB has identified a decrease in correspondent banking arrangement and identified such decrease as an impediment to access and competition in cross-border payments, *see* the Cross-Border Targets Consultation at 9.

⁹ Bank of International Settlements, *Annual Economic Report 2021, III. CBDCs: An Opportunity for the Monetary System*, at 82 (June 23, 2021), <https://www.bis.org/publ/arpdf/ar2021e3.pdf>.

Further, though not a separate friction identified by the FSB, new digital payments platforms and payments providers can address the issue of interoperability. Typically people can send and receive money with people who use the same platform, but not with people who are using a different platform. Such siloed systems are limiting. An open standard that supports interoperability between different payments systems and payments providers would accelerate the movement of money, reduce costs, and improve efficiency and competition.

For these reasons, we believe technological innovation, new digital payments platforms and new payments providers could address the frictions currently burdening the payment system's efficiency. A competitive ecosystem enabled by new entrants and new technologies are also likely to help meet the Proposed Targets, even ahead of the target deadlines and also the alternative proposed end-2026 targets. Indeed, supporting a digital ecosystem driven by non-traditional financial services providers of retail and remittance transfers is likely to result in substantially driving down the cost of sending money across borders. Reaching the Proposed Targets as quickly as possible is both important and possible, especially given the digital transformation of financial services and other businesses accelerated by the COVID-19 pandemic.

3. F2's Responses to Questions Posed in the Cross-Border Targets Consultation

The remainder of this letter indicates F2's responses to certain of the FSB's questions in the Cross-Border Targets Consultation. Where our responses to multiple questions are related, we have addressed the questions together to avoid repetition.

FSB question 1: What are your comments on the key design features applied in designing the targets? Are there any design features that you consider are missing?

We believe the design features outlined for the Proposed Targets are appropriate to address the cost, speed and transparency of, and access to, cross-border payments. We strongly agree with the FSB that the final cross-border targets should focus on the end-user experience and believe sending money—including remittances and making purchases to support growing businesses across borders—should become as easy and low-cost as sending a message has become through technological innovation and increased competition. An appropriate regulatory response that seeks to reduce frictions and regulatory hurdles for cross-border payments should also be considered as part of the FSB's effort.

FSB question 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?

FSB question 4: Do you agree with the proposal in the definition of the market segments to separate remittance payments from other types of cross-border 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 agree with the FSB's approach to segmenting the cross-border payments market into wholesale, retail, and remittances and believe these categories are sufficiently clear. We also agree with the choice to distinguish remittances from other retail payments. However, the targets within the remittances sector should be further evaluated by distinguishing among corridors. For instance, there has been recent progress in driving down the cost of sending a remittance from one developed market to another, such as the EU-U.S. corridor. The cost of sending money from a developed economy to a developing one remains high. Setting separate, ambitious targets for the different types of remittance corridors may help to better set public policy targets and to evaluate progress more accurately.

FSB question 3: Do you have any comments on the target metrics proposed?

FSB 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?

FSB question 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?

FSB 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?

As noted above, we support the Proposed Targets, which are objective and measurable, but we maintain that the timeline for meeting the Proposed Targets could be accelerated. We also believe technological innovation, digital payments platforms, and new payments providers should be leveraged to overcome existing frictions of the payment system. In light of these drivers and other considerations, we believe the following should also be reflected in the Proposed Targets and their metrics:

- **Clarification of Direct Access for Remittances:** If an intended ultimate payment recipient, including a recipient of remittances, does not have access to bank accounts or other accounts to receive cross-border payments directly, the intended recipient may instead rely on local intermediaries to receive the payment. In line with Facebook's payments and financial services mission outlined in Section 2 above and the goals of the FSB's efforts, we believe the final access targets should be clarified to require that 90% of ultimate recipients have the ability to receive funds directly rather than needing to rely on local intermediaries.
- **Recipients' Ability to Access and Deploy Funds Instantly:** Global efforts to improve access to cross-border payments should also improve the ability of people receiving money to use account balances quickly and seamlessly to purchase goods and services and pay their bills. Too many people today have to wait for funds to become available for spending or have to cash out funds upon receipt because they do not have access to digital services to spend their balances. The final cross-border payments targets should include a metric to measure whether funds are available instantly or the rate at which people are able to spend their funds within their local economy directly from the same account through which they receive funds.
- **Increase of Total Remittances:** Facebook agrees with the FSB's characterization of average remittance payment values today. However, there are remittances today that do not occur because they are too costly, would arrive too late or cannot be made to the ultimate intended recipient. These remittances are often small value transfers that cannot afford the fees associated with sending funds across borders. These remittances would happen (and the related economic growth and opportunity could be harnessed) if remittance payments were cheaper, quicker and more accessible. The final cross-border payments targets should also consider the benefits of increasing the volume of cross-border payments and remittances. This could be done with the addition of a metric to increase the total global volume of remittances, both in terms of number of payments and aggregate value.

Lastly, in response to question 8 relating to the dates proposed for achieving the targets, we believe, as outlined in Section 2 above, that the Proposed Targets are well achievable and could even be accelerated, including beyond the alternative proposed end-2026 target date. Technological innovation, digital payments platforms, and new payments providers are drivers for an enhanced, more efficient and more competitive global payments system. Partnering with these drivers would help reach the Proposed Targets ahead of the contemplated target dates.

July 16, 2021

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Thank you for your consideration of this letter. If you have any questions regarding this letter, please do not hesitate to reach out to myself or Rae Sheynberg (rae@fb.com).

Sincerely,

Edward Bowles,
Public Policy Global Director
Facebook Financial