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Submission by email to: fsb@fsb.org

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

Payments Canada welcomes the opportunity to provide feedback on the Financial Stability Board (FSB) consultation document, Targets for Addressing the Four Challenges of Cross-Border Payments, published May 31, 2021.

The consultation paper highlights four key challenges to existing cross-border payments (cost, speed, access and transparency) and proposes an approach to establishing quantitative targets for each across three key market segments: wholesale payments, retail payments and remittances.

We have organized our feedback into general overall comments on the approach set out in the consultation paper; followed by specific feedback on the consultation questions. Please note that our responses should be considered preliminary. We have not yet had the opportunity to consult our Member Advisory Council or our Stakeholder Advisory Council, which represent the views of our 111 member financial institutions and payments system stakeholders in Canada. We look forward to supporting both the Bank of Canada and Canada's Department of Finance in their continued work to respond to the FSB's international efforts to promote more efficient

cross-border payments, and in understanding the potential impact of targets under consideration to the participants in our domestic systems.

OVERALL COMMENTS

We recognize the critical importance of cross-border payments, particularly for an economy such as Canada with significant international trade relationships. The Enhancing Cross-border Payments: Stage 3 roadmap that has been endorsed by the G20 is broad in scope and ambitious in objectives. We would agree that clearly defined targets and metrics tracking the progress in the Stage 3 roadmap are an important part of this agenda, both to drive progress and to better define what success looks like.

We strongly believe that broad and deep consultation is key. We appreciate the workshop we attended on June 30, with the participation of a wide range of stakeholders from different industries and different countries, and would suggest encouraging FSB members to replicate that for their respective jurisdictions. The payment ecosystem in Canada is different than in Europe, for example, including the framework for cross border payments.

Developing targets and metrics are important, with their focus on benefits to end-users being welcomed; however, we have some high level concerns about the proposed approach, which we have flagged below.

First, there is a potential that, in seeking to achieve the targets, a disproportionate cost is placed on private industry, through both technological build costs and through regulation. There is also concern that the definitions are not clear and create opportunities for regulatory arbitrage, leading to an uneven playing field. For example, what is covered in retail, what in remittance, and how do the targets in each differ, or how exactly should costs be calculated? Further, there is a lack of clarity required as to how these targets and measures will be implemented: Are they aspirational or will governments / central banks / regulators translate them into regulation? Will they be benchmarked through peer reviews? Depending on how compulsory they are considered to be, the impact and consequences could be significant. These concerns could be addressed through greater clarity as to the purpose and role of the targets, and through better defining the three market segments.

It could be made more clear where the accountability should rest to deliver on the reform agenda and to standardize, reduce frictions and remove inefficiencies -- whether with regulators or the

industry. We do not believe, for example, that the targets can be met without regulators and central banks delivering on the reform agenda they are responsible for, as much of the cost associated with cross-border payments will likely be associated with the costs of complying with regulatory obligations.

The targets cannot be met for cross border payments if they cannot be met for domestic payments. In general, we would recommend confirming that targets are achievable on a domestic basis before deciding on their appropriateness for cross border transactions.

Finally, we would like to emphasize the fundamental importance of transparency for end users when making cross-border payments. Knowing the cost and speed of different options (and the status of a payment as it moves to its end recipient) is very important for making informed decisions as consumers. Transparency will drive competition, and therefore reduce cost and speed -- potentially reducing the need for specific cost and speed targets. Consistent data standards will be needed to support these competitive forces.

SPECIFIC CONSULTATIONS QUESTIONS

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?

This is largely a policy question. As an operator, we will try to adapt our systems accordingly. The targets seem appropriate in terms of the objectives of the Roadmap. A general point, though, is that we find that the targets are not well defined, and standardization of data requirements would be important to try to minimize costs.

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?

Again, this is largely a policy question, and depends on what is important to differentiate. The market segments of Wholesale, Retail and Remittance require further detail. As these market segments have different numerical targets, clarity on "what is included where" is essential to prevent regulatory arbitrage, particularly if the targets inform regulation.

'Wholesale', for the most part, appears clear as it relates to transactions between financial institutions. However, it does not fit neatly into our systems, as our "Wholesale" system, the LVTS, is also used for retail transactions. And our "retail" system is used for some very large transactions between financial institutions.

'Retail' is not as well defined, in our view. The category seems to include a broad range of payments with many different attributes -- person to person, person to business, business to person, business to business, domestic or crossborder -- with several different regulatory requirements, which will impact the costs and speed.

'Remittance' is defined consistent with the commonly used definition of person-to-person cross border payments within certain corridors. Defining those corridors becomes important -- particularly given the significantly different Cost target.

Within these three categories, it is unclear how many of the newer and future technologies, such as DLT, CBDCs, stablecoins, closed loop app-based payments, gaming currencies, etc. will be classified. Further, the market segmentation does not distinguish between incumbent and new service providers; depending on the requirements, new businesses may need to incur considerable cost in the start-up stage, which may limit the ability of a new business to operate in accordance with these targets.

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

We believe that the target metrics could be clearer. For instance, it is unclear how the denominator of percentage targets will be determined (75% of what? 90% of what?). Further, we are unsure whether cost means the full price to the end-user or whether it is calculated in some other way.

In respect to cost, it is not clear if the costing is fully inclusive of foreign exchange and all transfer fees, including both percentage and fixed fees, as well as spreads built into exchange rates.

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 think it makes sense to separate out the remittance targets to be consistent with the World Bank and UN SDG definition and targets. However, there is still some possibility of overlap with the “retail” definition, and this could be clarified further.

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?

There is not much explanation in the paper as to how the targets were arrived at. Without further background, as well as clarification as to how data will be collected and used against these targets, it is difficult to assess their suitability. At this point, it is not obvious how the Canadian data could be collected -- further discussion and consultation is necessary.

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?

As noted above, we feel there could be more clarity on how exactly to define the retail market segment, and what elements the costs include. It is also important to understand whether the cost targets are obtainable for domestic transactions before coming to a view of whether they are suitable for cross border transactions.

Another factor is the type of payment. Some payments may not need to be immediate -- a two day process may be more than sufficient for some transaction types. There can be tradeoffs, where these longer duration transactions would be less costly. Finding the balance between lowering cost and increasing speed will be hard to achieve through targets and there is likely a role for competitive forces to decide where that tradeoff should be.

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?

Again, the speed targets should be referenced to the domestic situation -- one would expect cross border transactions to take longer than domestic transactions. The targets are also highly dependent on the intermediaries; we have not had the opportunity to discuss this objective with our membership.

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?

More detail would be helpful both in terms of the targets and the Roadmap to have a sense as to whether the proposed target year is achievable.

Also, this cross-border payments reform agenda is not happening in isolation. There are a wide number of other reforms, both in train, proposed and possible, including ISO20022 upgrades, digital currencies, and real time payments, not to mention upgrades of existing systems and domestic regulatory reforms. It would perhaps make sense to take stock of how the targets will be pursued in some indicative jurisdictions, and how those approaches would dovetail with or conflict with established roadmaps for payments system improvements.

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?

There are existing data sets and data collection sources from bodies such as the World Bank and the Bank for International Settlement that should be leveraged as much as possible. Data collection should be as efficient as possible and should not impose significant cost on industry. Much further consultation is necessary to determine which data exist, and how relevant and standardized they are.

CONCLUSION

Thank you again for the opportunity to comment on this consultation paper. The setting of targets for improvements in cross border payments is a challenging exercise, and we congratulate the FSB on its efforts to date. We are confident that with some refinement and further private sector

input, the agreed targets will present ambitious but realistic end goals for the Roadmap. We intend to collaborate with the Department of Finance Canada and the Bank of Canada to better engage private sector stakeholders in Canada and will make an effort to support the provision of more nuanced Canadian input on the targets in the coming months.

Yours sincerely,



Anne Butler

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