RTGS.global™

The world's cross-border liquidity network

Introduction

RTGS.global takes pleasure in responding to this consultation and the following is provided by way of background to our responses that follow.

In 2018, our work on designing and developing a new system to support international wholesale payments and liquidity transfers commenced. Building upon the team's experience of building and running systemic Financial Market Infrastructures (FMIs), we believed that we could create a closed, secure system of liquidity availability, transparency and near-immediate transfers between prudentially regulated commercial banks against their central banks funds using synthetic accounts tied to their reserve bank ledgers. For this process to operate efficiently and to remove Settlement risk we needed to design, build and operate within a global atomic settlement environment. By the summer of 2020 working with our partners, Microsoft, the base system had been built and is now operationally complete. Our approach transforms wholesale and commercial payments and provides a base infrastructure to support a wide range of transactions where immutable liquidity is required, instantly.

The RTGS.global environment delivers additional opportunities for asset clarification by moving risk weighted assets (RWA's) into High quality liquid assets (HQLA's) with auditable performance being delivered in real-time to prudential regulators. This remains a goal for us to achieve by working closely with the Central Bank community in time.

We would be more than happy to discuss further our responses, if that would prove useful to the committee.

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1	What are your comments on the key design features applied in designing the targets (section 1)?	Given most of the timescales advocated in the paper run to the end of 2027 (and 2030 for Remittances), we believe a key area not covered in the document is the Technology foundation that will be required (and the challenges associated with legacy infrastructure). Should there be an acceptance that, to deliver a modern environment, this may well dictate a cloud compute environment to allow widespread and rapid adoption? This is key for the access target to be achieved. The speed needs to be near instant, as this capability is already being deployed by FinTech's using virtual liquidity and consolidated balance sheets. Transparency can only be achieved if all the components move in synchronisation, messaging, liquidity validation and ownership transfers must be seamless.
	Are there any design features that you consider are missing?	At present, the settlement of cross-border transactions is often impacted by local RTGS operating hours which, in combination with time zone and working-day differences, results in limited settlement windows being available in a variety of currency corridors. Whilst some Central Banks (e.g. the Bank of England[1]) are looking to include the capability to extend operating hours to near 24/7 with future RTGS implementations, this would need to be mirrored elsewhere for this problem to be addressed. Alternatively, synthetic ledgers from Market Infrastructure providers with the necessary approvals by Central Banks could also address this issue. It would be useful for some formal measure to be introduced that could look to address this key problem.
2	Do you agree with the market segments	Yes. The segments are defined correctly.

[1] https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/cross-border-payments-innovating-in-a-changing-world-speech-by-victoria-cleland.pdf

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	as described?	
	Are they sufficiently clear?	They are clear although there is one observation in respect of including non-corporate high-value payments of wholesale market size under retail payments. High value payments for multinational corporates will invariably settle in the same rails as wholesale payments and consideration should be given to the liquidity impact these types of transactions have on the corporates and their banks. Additionally, some non-financial corporates are direct members of wholesale major service providers e.g. SWIFT. It would also be helpful in terms of segmentation to distinguish between commercially driven payments and pure money transfers for the purpose of transferring wealth.
	Do they reflect the diversity of cross-border payments markets, while providing a high-level common vision for addressing the four roadmap challenges?	The paper does cover the topic well. The building blocks are well laid out in the wholesale markets segments which do a) indirectly underpin the other two segments through Liquidity Management wholesale payments e.g. FX, pooling payments, or b) directly via interbank payments aligned to customer orders e.g. MT202COV).
3	Do you have any comments on the target metrics proposed?	We have grouped our comments in line with the four target areas: <u>Costs</u> Whilst we support the aim of reducing costs, we disagree with the proposal that there should be no target metric for wholesale payments. Whilst these payments do not involve an end-beneficiary (either corporate, SME or retail consumer), the transfer of cross-border liquidity between parties via wholesale payments often then underpins subsequent correspondent payments. Costs incurred at the wholesale level will be sought to be covered by transaction fees elsewhere. Whilst the paper states that “average costs are difficult to estimate” and that they may be “bundled with other services”, this absence of transparency should not prevent some form of quantitative metric from being introduced. With respect to the cost of retail, we are concerned that simply targeting an average cost

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		reduction may not sufficiently address some of the underlying cost drivers. The paper highlights that costs can be driven by differing compliance requirements in different jurisdictions. That, combined, with increasing regulatory focus around KYCC (know you customer's customer) may mean that cost savings in one area may simply be offset by increased regulatory cost in another area. The fact that several intermediaries may be involved in an end-to-end payment chain means there is considerable risk of a duplication of process given each financial institution involved will be duty bound to undertake its own checks. [LEI/Individual ID – FSB needs to spearhead / drive change in conjunction with local regulatory bodies] Separately, for both wholesale and retail payments, part of the cost-base would be directly associated with the operational processes that are required in the absence of 24x7x365 RTGS systems. In the coming years, the more RTGS settlement systems that broaden their daily operating window, the less operational friction (and therefore delay and implicit costs) will be present. <u>Speed</u> Wholesale & Retail: As above, given the timescale for the changes to take place, we believe there should be a greater focus on extended RTGS opening hours (given these often define what is meant by a business day) including the weekends. Such an extension of hours would greatly assist with time-zone differences where it is the lack of overlapping of RTGS operating hours which gives rise to settlement risk and payment delay. This would give rise to enhanced domestic economic performance as well as cross-border (a key IMF consideration). <u>Access</u> Wholesale: As speed (and the requirements for speed) increase so does the risk of dependency on a small number of providers in the cross-border liquidity/payment area. We note the wording of "where appropriate" with regards to the provision of multiple options for sending multiple cross-border wholesale payments. We believe this should be mandated on the largest institutions since any interruption of their ability to transact

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		wholesale liquidity flows could easily have systemic impact. Allied to this, we note a number of RTGS providers are moving towards multiple network provision to reduce the risk of interruption arising from single network dependency. As we remove the friction in cross-border transactions, we strongly believe that our reliance upon them will increase. This increase needs to be coupled with an increase in operational resilience. Transparency We support the aim of enhanced transparency of details of the end-to-end payment chain/cost to the customers. However, whilst enhanced visibility of transaction status is useful, that does not assist an end beneficiary with regards to a late payment. There is no mention of where an end beneficiary can look in terms of accountability. Linked to this, there is no mention of how this should/will be tied to international service levels and what recompense customers (either corporate or retail) should receive for late/failed payments.
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?	The answer is 'yes'. Consumer driver cross-border remittance transactions have a different purpose compared to P2P cross-border payments. Remittances are motivated by the need to transfer wealth from one country to another, e.g. in order to sustain family abroad. These transactions are not necessarily digital end-to-end but rather they can both be initiated via physical cash at the counter of a remittance provider and also drawn out as physical cash in the recipient country, via and ATM or at the counter of the local remittance provider or network that facilitates those types of flows. It is also indeed true that remittance corridors can be more challenging in terms of country risk, currency fluctuations, absence of adequate anti-money-laundering and counter-terrorist-financing regulations and enforcement processes, low or no availability for local pay-outs to happen via the banking network (because of de-risking) etc. This makes remittance transactions intrinsically more risky from an AML/CTF perspective, whereas from a financial stability point of view these value flows are not big enough to create concerns.

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	If so, can you suggest data sources that can distinguish between the two types?	Key data for the remittance industry can be found with the big remittance providers, e.g. Western Union, MoneyGram, Wise, Remitly, Worldremit, Transfast, Azimo. In addition, in line with work done by the World Bank, the large correspondent banks that are facilitating MTO driven remittance flows will also be a key data source. However, the use of cognitive services, such as biometrics, will be able to lift some of the KYC and AML related compliance burden.
5	Are the proposed numerical targets suitable?	<u>Cost</u> As above, we are concerned that a target has not been identified for Wholesale payments. With regards to Retail, we believe even a global average of 1% (with some corridors up to 3%) remains high, particularly given the proposed timescale of the end of 2027. With many domestic payments systems operating at zero cost for domestic payments, we believe the targets should be restricted to a maximum of 2% and a global average of 0.75% which is the direction the market is heading and could be still less by 2027. For remittances, we believe that targets should be less than that proposed (in terms of reaffirming the UN SDG). For poorer families, a 5% reduction in some currency corridors still represents a substantial reduction in the total sum remitted (particularly if these are regular remittances). Furthermore, the target of 2030 means higher fees would likely remain in place up to that point. There is no driver here to adopt better technology methods and runs contrary to financial inclusion initiatives elsewhere). We would propose that, if some of the other measures are achieved (around access and speed) there is no reason why remittance costs should be higher than retail cross-border payments (if not lower). We therefore believe, at a minimum, that the targets should be aligned between remittances and retail transactions. <u>Speed</u> From an end-beneficiary's perspective, there is a large difference between a target for 1 hour for the majority and the remainder "within one business day". This could mean at the end of the next business day (possibly including a weekend in between) leaving businesses and consumers potentially short of funds in the interim. As per our earlier comments, we believe the FSB should set targets towards the adoption of broader opening hours for Central Bank RTGS systems or alternative synthetic settlement

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		arrangements. Outside of those payment systems that involve pre-funding, improved RTGS operating hours should enable faster settlement without the need for entities taking on credit risk. <u>Access</u> Wholesale: As above, we believe systemically important financial institutions should be mandated to use multiple paths for sending cross-border payments for both operational resilience and enhanced competition given the likelihood of differing services and features that would entail from this.
	Are they objective and measurable, so that accountability can be ensured by monitoring progress against them over time?	For the targets to be effective, it is essential that they can be measurable and that resources are in place to monitor them. Save for observing the need for KPIs to be established and data sources identified, little further information is available in the paper. With a payment chain often including several payment institutions and differing mechanisms used for their transmission, accurate measurement represents a significant challenge. For the data to be useful, it must be accurately collected at each stage so as to identify weak links. Simply knowing the end-to-end payment journey time may not be sufficient. At present, and in line with the Access provisions, no single entity will possess this data (including SWIFT) given the differing networks utilised for local payment systems. There is then the question of who is responsible for collecting the data and monitoring the collective performance of the institutions concerned (particularly given GDPR and equivalent data privacy regulation elsewhere). For individual transactions, there is the question of whether this should fall to authorities in the originating or beneficiary side of the payment transaction (or both). Who would then have responsibility for aggregating the data (assuming local regulators are required to submit it centrally)? As such, should this be a responsibility that the FSB/BIS/IMF should adopt with linkage then to local regulators?
6	What are your views on the cost target	Remittance cost comments addressed in our response to point 5.

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	for the retail market segment?	"With regards to Retail, we believe even a global average of 1% (with some corridors up to 3%) remains high, particularly given the proposed timescale of the end of 2027. With many domestic payments systems operating at zero cost for domestic payments, we believe the targets should be restricted to a maximum of 2% and a global average of 0.75%".
	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?	We feel that the targets should be more ambitious and build on the work that has already been done in the sector to drive down costs (particularly given we are talking about the operating environment in 2027). Replacing legacy infrastructure with new and scalable technologies, focusing on AML / KYC bottleneck (standardisation, risk commonality, digital identities etc,) STP reducing operational costs, making more corridors more accessible etc should result in lowering the unit price of transactions.
	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?	Remittances has fewer payment characteristics to retail payment segment where originator and beneficiary types, transaction value, payment value chain / drivers etc. vary significantly. Setting targets amounts would need to be done for each payment categorisation i.e. B2B / B2P / P2B / P2P. P2B and P2P would need to be set substantially lower than the other two categorisations (An initial target could remain at $200 as with remittances) B2B / B2P could be set higher by the very nature of the underlying commercial aspect of the majority of the transactions. The challenge would be establishing a reasonable target reflective of the breadth of the value of transactions. In which case, would a single target be meaningful at all, and the cost target should equate to the segment as a whole.
7	What are your views on the speed targets across the three market segments?	As outlined above, Time Zone issues means restricted number of overlapping days in the working week plus Bank and public Holidays. This means on aggregate that the existing network only operates on a 4-day week basis in certain currency corridors. The absence of a co-ordinated 24x7x365 strategy at the Central Banks (RTGS) is, potentially, an inhibitor of realising the desired benefits. Again, as outlined above, alternative synthetic ledger solutions could remedy that gap.

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	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?	The targets must be combined to deliver a meaningful solution. Achievement of one target may not deliver very much by way of real value. Moreover, outside of this scope are key items such as KYC/AML/PEPS and Sanction checks that need to be harmonised to the solution to avoid creating additional secondary friction and costs. Ideally, global standards should be introduced.
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?	Whilst not explicitly referenced in the paper, we note the programme of ISO20022 adoption/rollout across the Banks (and RTGS providers) presents a significant technical period of change for the next three years thereby limiting further acceleration of these timescales. For Remittances, we would propose the target should be the same as for retail payments (2027) as opposed to 2030. Otherwise, those that are dependent on income streams via remittances would need to pay additional fees for three additional years.
	Would an alternative and more ambitious target date of end-2026 be feasible?	We would support the adoption of a tighter target of 2026.
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?	Can data be anonymised? – Where sources are from commercial market participants and information is not in the public domain e.g. pricing, it would have to be anonymised to allow data to be shared. It makes sense that a central body, recommended by the FSB and that all participants are comfortable with, be appointed to collate, control, ratify and analyse the data centrally. • What established aggregation points can be leveraged for this initiative or will a new one need to be created? • What independent body could be appointed to control the data? SWIFT would not fit into this categorisation even though it may seem the most obvious due to the fact that not all transactions flow across their network.

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<tr><th>No.</th><th>Question</th><th>RTGS.global Response</th></tr>
<tr><td></td><td></td><td>Sources:

FMI's and their infrastructure providers (e.g. Vocalink & SWIFT)
Payment infrastructures
Banks (incl. central banks) - captures activity that is executed internally and not over external payment rails
MTOs and other PSPs
Prudential Regulators (e.g. BCBS248 data points may be leveraged)

Challenges:

End to end chain and multiple data points
Duplicating data / reconciliation
Standardisation / referencing – multiple sources = multiple formats. Not all markets / organisations will be moving onto ISO20022 simultaneously.
Mobilising organisations to provide the data required: slow / inadequate infrastructure / resource availability
Completeness / accuracy
Security / Risk; participants agreeing to have data stored centrally / off premises / anonymised etc.
Cost: Will data be handled / processed / acquired reasonably
Speed: Can all the necessary data be sourced in a timely fashion in order to drive the necessary reporting and analysis?

Standards:

New data available to be carried under ISO20022 (e.g. Enhanced data to be required by Bank of England)
Common Standards - SIC codes / LEIs
Custom Tariff applicable per country deducted in-flight. Again, this information will need to be collected since it alters the net amount received by the end beneficiary.
</td></tr>
<tr><td></td><td>Do you have relevant data that you would be willing to share for this purpose either now or during the future monitoring?</td><td>For future monitoring, RTGS.global would have no issue with the provision of this data (once it is mandatorily required). Since RTGS.global is not yet live, there is no data that we have available to share at this point.</td></tr>
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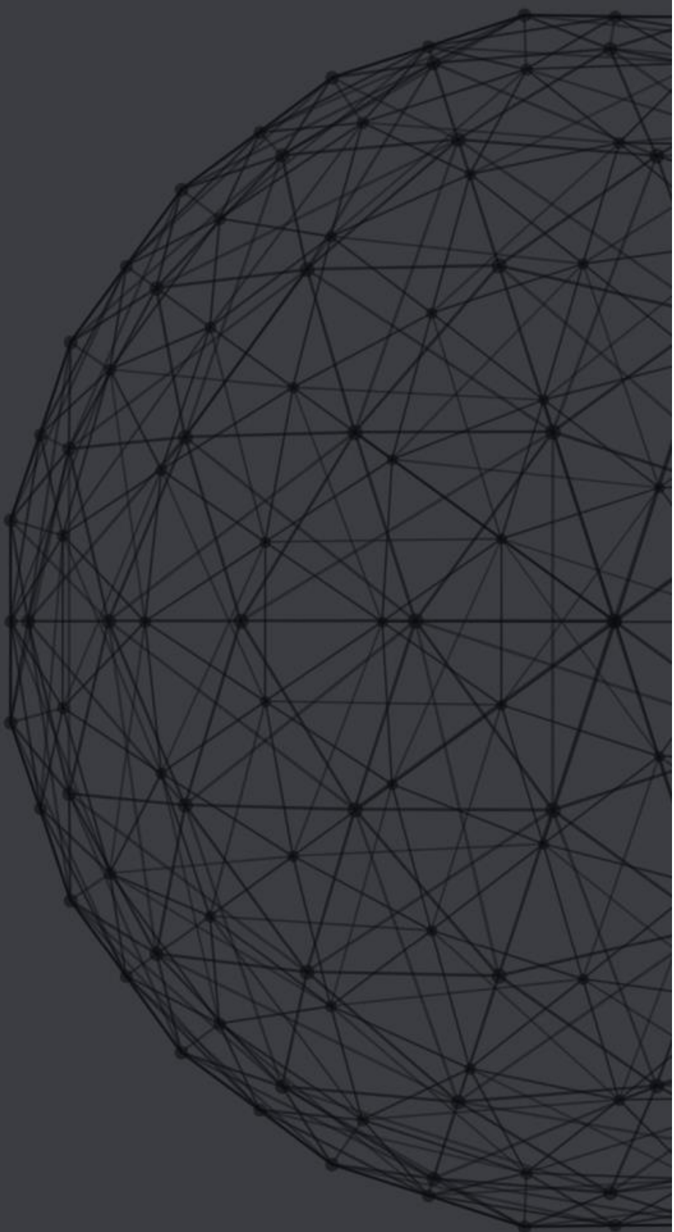
10	Do you have further suggestions or questions about the detailed definition and measurement of the targets and their implementation?	As referenced above, there is a key question around the responsibility for monitoring the targets. Should this be a responsibility that the FSB/BIS/IMF should adopt with linkage then to local regulators? Commercially it would be difficult for a single organisation/market infrastructure to have this responsibility.
	Which types of averages can be constructed to help to measure progress?	No comment to add
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?	An additional qualitative measure could be the anonymised reporting (to a central body) of customer complaints with respect to cross-border payment transactions and trends arising from these. Designed and operated correctly, RWA/HQLA conversion can also occur which has the consequent benefit of the reduction on interbank credit risk, one of the causes of the last global financial crisis. Enabling cross-border interbank payments to be executed on the basis of HQLA, rather than using interbank credit would significantly reduce financial stability risk.

To learn more about RTGS.global contact us



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