Classification: Public

EBA CLEARING response to the CPMI Interim Report: *Linking fast payment systems across borders: considerations for governance and oversight*

In October 2023, the Committee for Payments and Market Infrastructures (CPMI) issued an Interim Report on *Linking fast payment systems across borders: considerations for governance and oversight*.[1]

EBA CLEARING understands that the CPMI has decided to consider this topic in detail due to the potential that interlinking fast payment systems holds for cross-border payments. EBA CLEARING also understands that the CPMI's research in this area is driven by various interlinking initiatives announced by the public sector (e.g. Project Nexus) as well as interlinking or similar projects announced by the private sector.

EBA CLEARING submits the following comments for consideration by the CPMI.

Interlinking or otherwise connecting fast payment systems is efficient and effective.

EBA CLEARING agrees that the **most efficient** way to enhance cross-border payments is to **leverage the investments the industry has already made**. This could involve interlinking or otherwise building connections between existing payment systems, including fast payment systems. In addition to financial considerations, leveraging existing payment systems is efficient from an oversight perspective, because payment systems are typically already overseen by central banks. Interlinking or similar arrangements between fast payment systems can also leverage the risk management frameworks that are already in place in each fast payment system.

EBA CLEARING further agrees with the CPMI's overall objective that interlinking arrangements should be underpinned by robust governance frameworks and subject to proportionate oversight, as necessary.

However, EBA CLEARING respectfully submits that the Interim Report overstates the challenges related to governance and oversight, particularly in the case of private sector initiatives.

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[1] "Interim Report", available here: bis.org/cpmi/publ/d219.pdf

Interlinking already exists today, and is safe and secure.

The Introduction to the Interim Report states that "*Interlinking arrangements […] remain relatively untapped*".[2]

Actually, there are already many forms of interconnected systems and schemes. In the Single European Payments Area (SEPA), any SEPA Clearing and Settlement Mechanism (CSM) can channel payments via another CSM on behalf of its participants. STEP2-T, operated by EBA CLEARING, and 15 other SEPA CSMs have established interoperability, which facilitates reach to around 5,000 BICs.

TIPS, the instant payment system operated by the European Central Bank, has an instructing party functionality through which a participant in another Automated Clearing House can send/receive payments to a participant in TIPS.

One-leg-out transactions are also already a reality, and many payments that settle in the pan-European wholesale payment systems, EURO1 and TARGET2 RTGS, involve a processing leg in another payment system, potentially in another jurisdiction.

As the CPMI notes, correspondent banking is also a form of interlinking, and is a standard model for exchanging cross-border payments. There are also card schemes that interconnect local and/regional schemes. Indeed, even the Swift network can be considered to be interlinking.

The Interim Report does not explain how recent or future interlinking arrangements, proposed by the public or private sectors, present greater governance and oversight risks as compared to the arrangements listed above.

Regarding **Governance**, EBA CLEARING can understand that ownership and other governance matters may be particularly complex for public-sector interlinking arrangements. However, private sector initiatives are not constrained by political factors, and Consideration 1[3] simply does not apply to private sector arrangements.

More generally, joint commercial ventures are very common in the private sector, particularly in the payments industry which is collaborative by nature. It is important that the CPMI avoids creating regulatory hurdles for new interlinking arrangements, unless such arrangements present enhanced governance risks as compared to other similar arrangements.

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[2] Page 5.

[3] "*Compatible strategic and economic policy priorities among the involved jurisdictions can create favourable conditions for agreement on potentially sensitive issues related to the design of an arrangement's governance*". Similarly, the observation on page 15 that "[…] *governance should be flexible to accommodate an evolution in the role of central banks in an interlinking arrangement*" also does not apply to private sector arrangements.

As noted by the CPMI, *"[t]here is no "one-size-fits-all" governance arrangement, and the governance arrangement might need to be tailored due to a variety of factors, including national law, ownership structure, or the specific model underpinning the interlinking arrangement and/or of the specific interlinked FPS*".[4] Therefore, it is important that any CPMI guidance on this topic is non-binding, and provides flexibility to the private sector to create the optimum governance arrangement for a specific interlinking arrangement. For example, regarding stakeholder involvement, certain decisions might need to be restricted to stakeholders that have a financial interest in the interlinking arrangement (i.e. the owners), in light of national law. Similarly, as regards future extension of an interlinking arrangement, it will be necessary to balance fair and proportionate representation of different stakeholders with a governance framework that is workable from a practical perspective.

Regarding **Oversight**, the Interim Report does not explain why, in general, interlinking fast payment systems would require separate oversight arrangements than those that already exist in various forms for the examples listed above. Specifically, the Interim Report does not explain how such new initiatives present enhanced or different risks as compared to the models listed above. The Report also does not explain why it would be necessary to create a separate oversight framework for an interlinking arrangement, in cases where each fast payment system participating in the arrangement is already overseen.

Ultimately, EBA CLEARING supports the CPMI's observation that a "*proportionate approach in terms of risk management and oversight, may contribute to [the] success*" of the interlinking arrangement.[5] Indeed, the opposite could also be true, that disproportionate oversight requirements at the early stages of an interlinking arrangement can hamper its development.

It is also inappropriate for the CPMI to suggest that oversight is a prerequisite to an interlinking arrangement.[6] **Oversight should only be necessary where an arrangement involves payment volumes or values that could impact financial stability**. Similarly, while "*open communication*" is an important aspect of effective Oversight, the "*day-to-day management*" of the arrangement must remain the responsibility of the owners of the arrangement, as delegated to governance or management bodies within the organisation(s).[7]

Finally, EBA CLEARING encourages the CPMI to reaffirm its commitment to the Principles for Financial Market Infrastructure, which are a global standard, and can be applied to systemically important interlinking arrangements, if necessary to preserve financial stability.

[4] Page 10.

[5] Emphasis added.

[6] "*FPS interlinking paves the way for faster, cheaper and more inclusive cross-border payments, but only if authorities engaged in interlinking initiatives can agree on the oversight for these arrangements […]*." Page 20.

[7] Consideration 10: "*Both management and overseers may also benefit from open lines of communication for day-to-day management*".