

The G20 cross-border roadmap:

Navigating the FX lane

In 2020, the G20 launched a program to overcome long-standing challenges in cross-border payments. The program covers FX settlement risk mitigation for cross-border payments involving a currency exchange. What has been achieved over the past three years, what remains to be done, and how does the FX settlement risk mitigation offered by CLS contribute?



¹ See Shaping FX series;
cls-group.com/insights/shaping-fx-ecosystem

Hitting the road

Cross-border payments¹ continue to be an integral component of today's financial world, as trade and flows of capital, people and information have become increasingly globalized over the past decades. Although this trend slowed after the global financial crisis,² globalization remains robust after proving its resilience through recent economic and geopolitical challenges.³

Cross-border payments are inherently more complex than domestic money transfers, as they rarely go directly from payor to payee. They span various regions and may involve several intermediaries and systems, as well as different legal and regulatory frameworks, technical standards and time zones.

The frictions around cross-border payment processing have been on public policy agendas for many years.⁴ In 2020, the G20 decided to prioritize cross-border payments and launched an unprecedented multi-year initiative to address remaining challenges⁵ in “the forgotten corner of the global financial plumbing”.⁶

Developing the roadmap (2020):

The G20 asked the Financial Stability Board (FSB), in coordination with the Committee on Payments and Market Infrastructures (CPMI) and other relevant standard-setting bodies and international organizations, to develop a roadmap to enhance cross-border payments. Work conducted over the course of 2020 and

involved identifying existing challenges (speed, cost, transparency, access) and corresponding frictions,⁷ defining responses in the form of 19 building blocks mapped onto five focus areas,⁸ and establishing a high-level plan (Figure 1).⁹

Stock-take and assessments (2021-2022):

During its first two years, the initiative established foundational elements of the roadmap e.g., by defining quantitative targets for addressing speed, cost, transparency and access.¹⁰ The initiative also conducted analyses and provided guidance regarding standards and data frameworks¹¹ and improving access to¹² and interlinking¹³ payment systems, liquidity bridges,¹⁴ operating hours,¹⁵ and FX settlement risk.¹⁶ Private sector stakeholders closely collaborated in this effort.

Prioritizing and implementing actions (2023-2025):

In an effort to deliver tangible enhancements to cross-border payments by the end of 2027, a three-year prioritization plan and a public-private sector engagement model were established. Work is based on three interconnected themes that focus on selected building blocks¹⁷ (Figure 1). Under the plan, industry task forces drive ongoing public and private sector collaboration.¹⁸

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¹ In a cross-border payment, the payor and payee reside in different jurisdictions. Cross-border payments are typically cross-currency, although a single currency is used within monetary unions (like the euro area) or where there is a common invoice currency (often the US dollar); see Bech, M., Faruqi, U, Shirakami, T. (2020) Payments without borders, BIS Quarterly Review.

² Aiyar, S., Ilyina, A. (2023) Charting Globalization's Turn to Slowbalization After Global Financial Crisis; IMF blog.

³ Altman, S., Bastian, C. (2023) The State of Globalization in 2023; Harvard Business Review.

⁴ For example, CPMI (2016) Correspondent Banking – final report; CPMI (2018) Cross-border retail payments.

⁵ See Communiqué of G20 Finance Ministers and Central Bank Governors Meeting, 22-23 February 2020, Riyadh, Saudi Arabia.

⁶ Cunliffe, J. (2020) “Cross-border payment systems have been neglected for too long”, Financial Times, 13 July 2020.

⁷ FSB (2020) Enhancing cross-border payments – Stage 1 report to the G20; FSB (2020) Enhancing cross-border payments – Stage 1 report to the G20: Technical background report.

⁸ CPMI (2020) Enhancing cross-border payments: building blocks of a global roadmap; CPMI (2020) Enhancing cross-border payments: building blocks of a global roadmap – Technical background report.

⁹ FSB (2020) Enhancing cross-border payments – Stage 3 roadmap.

¹⁰ FSB (2021) Targets for addressing the four challenges of cross-border payments.

¹¹ CPMI (2022) Harmonization of ISO 20022: partnering with industry for faster, cheaper, and more transparent cross-border payments; CPMI (2023) ISO 20022 harmonization requirements for enhancing cross-border payments.

¹² CPMI (2022) Improving access to payment systems for cross-border payments: best practices for self-assessments.

¹³ CPMI (2022) Interlinking payment systems and the role of application programming interfaces: a framework for cross-border payments.

¹⁴ CPMI (2022) Central bank liquidity bridges for cross-border payments.

¹⁵ CPMI (2022) Extending and aligning payment system operating hours for cross-border payments.

¹⁶ CPMI (2022) Facilitating increased adoption of payment-versus-payment (PvP).

¹⁷ FSB (2023) G20 Roadmap for enhancing cross-border payments – priority actions for achieving the G20 targets; FSB (2022) G20 roadmap for enhancing cross-border payments – priorities for the next phase of work.

¹⁸ The CPMI leads the task force on cross-border payments interoperability and extension (PIE task force), and the FSB leads the task force on legal, regulatory and supervisory frameworks. CLS is a member of the CPMI-led PIE task force.

G20 cross-border payments program

2020 Developing roadmap			2021–2022 Stock-take & assessments	2023–2025 Prioritizing & implementing actions		
Beginning with 4 CHALLENGES	Caused by 7 FRICTIONS	Addressed by 5 FOCUS AREAS	With 19 BUILDING BLOCKS	Split into 9 PRIORITY / 6 SUPPORTING building blocks		Supporting 3 PRIORITY THEMES
				PRIORITY	SUPPORTING	
Cost Speed Access Transparency	Data formats	Public and private sector commitment	1. Vision and targets	A*		A. Legal, regulatory and supervisory framework B. Payment system interoperability and extension C. Data exchange and message standards
			2. Guidance and principles	A		
			3. Service level features		B	
	Compliance checks	Regulatory, supervisory and oversight frameworks	4. Framework alignment	A		
			5. AML/CFT application	A	C	
			6. Data frameworks	C		
			7. Payment corridors	–	–	
			8. KYC/identity information	–	–	
	Operating hours	Existing payment infrastructures and arrangements	9. PvP adoption		B	
			10. (Direct) access	A, B		
			11. Liquidity arrangements	–	–	
	Technology platforms	Data and market practices	12. Operating hours	B		
			13. Interlinking	B		
	Funding costs	New payment infrastructures and arrangements	14. ISO 20022 adoption	A, C		
			15. API protocols	C		
			16. Identifiers and registries	C	A	
			17. Multilateral platforms		B	
	Transaction chains	Weak competition	18. Global stablecoins	–	–	
			19. CBDC designs		B	

* A, B and C represent priority themes



PvP pit stop

Cross-border payments normally involve the exchange of one currency for another. Therefore, they may be subject to FX settlement risk, i.e., the risk that one party pays the currency it sold but does not receive the currency it bought. PvP mechanisms, such as those offered by CLS on a global scale, mitigate this risk, and that is why building block 9 of the G20 cross-border roadmap focuses on facilitating increased adoption of PvP.

Building block 9 seeks to expand PvP to a wider range of currencies and market participants in order to mitigate FX settlement risk and ultimately reduce the end-to-end cost of cross-border payments.

Over the past three years, the public sector took several actions – most with industry involvement – to expand PvP usage on a global scale:

- In December 2020, the Chairs of the Basel Committee on Banking Supervision (BCBS) and the CPMI published a **joint letter**¹⁹ that reiterates prior guidance to use PvP where practicable²⁰
- A 2021 update to the **FX Global Code**, a set of global principles jointly developed by central banks and market participants from 20 jurisdictions, emphasizes FX settlement risk management and netting²¹
- To assess the magnitude of FX settlement risk, more granular data was collected and published in 2022 through the **BIS Triennial Survey** on the size and structure of the global FX and OTC derivatives markets²²
- In the course of 2021 and 2022, the CPMI held **industry workshops**, engaged with the private sector²³ on existing and in-development PvP arrangements, and called for ideas for new proposals²⁴
- In 2022, based on the input gathered from the industry, the CPMI published a consultative **report on how to facilitate increased adoption of PvP**.²⁵ The report highlights that PvP arrangements: (i) are not currently available for some emerging market currencies; (ii) may not reach smaller market participants; and (iii) could provide enhanced functionality such as same-day or even instant settlement on a 24/7 basis. CLS actively contributed throughout the consultative process²⁶
- The three-year prioritization plan initiated in 2023 considers PvP adoption as a supporting building block, and work is being taken forward, for example, by the CPMI-led industry task force on cross-border **payments interoperability and extension (PIE task force)**, on which CLS serves.²⁷

¹⁹ bis.org/press/201217_letter.pdf

²⁰ Seconded by national and regional actions such as the ‘Sound practices for managing FX settlement risk’ published by the European Central Bank (Supervision Newsletter, 17 May 2023).

²¹ Global Foreign Exchange Committee (GFXC) (2021) FX Global Code, principles 35 and 50.

²² Glowka, M., Nilsson, T. (2022) FX settlement risk: an unsettled issue.

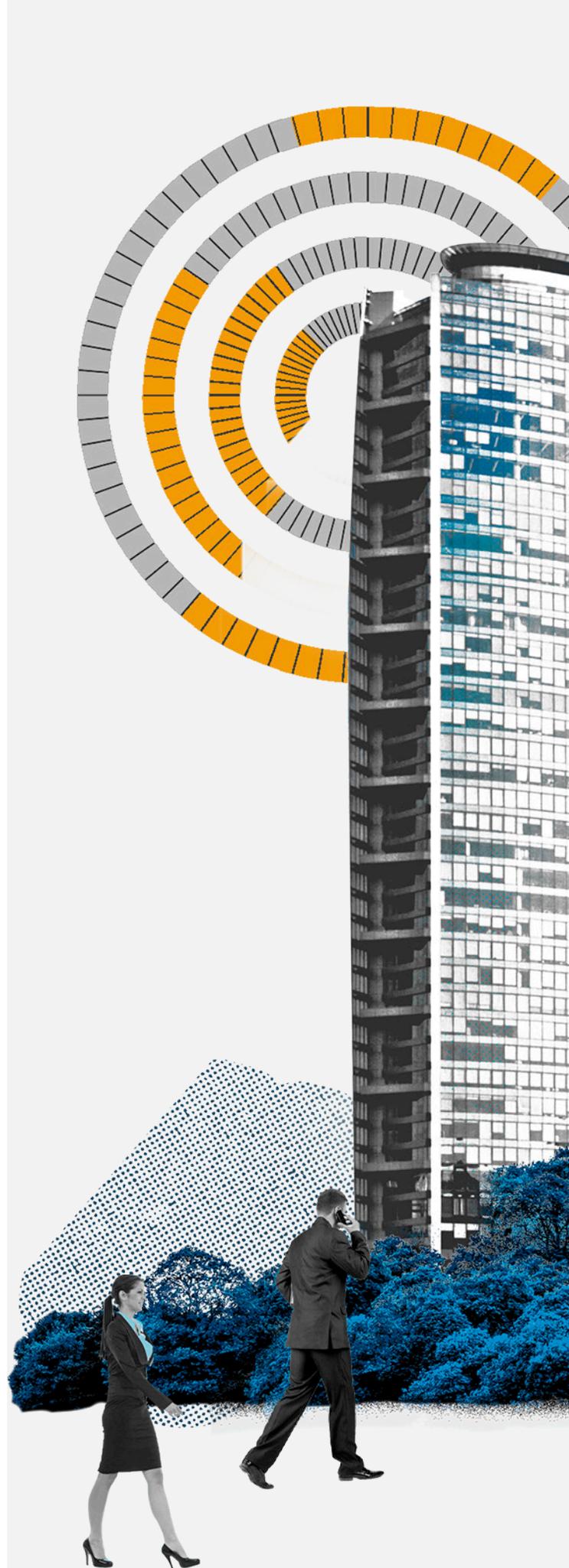
²³ In 2021, the CPMI and the BCBS also held a workshop on FX settlement risk.

²⁴ bis.org/press/p211007.htm

²⁵ After further interaction with the industry, the report was finalized and issued in 2023; see CPMI (2023) Final report – facilitating increased adoption of payment versus payment (PvP).

²⁶ See, e.g., bis.org/cpmi/publ/comments/d207/cls.pdf

²⁷ bis.org/press/p230223.htm





Navigating the wholesale cross-border highway

The G20 cross-border roadmap covers the wholesale, retail and remittances market segments,²⁸ which all face different obstacles. The G20 roadmap fully acknowledges these differences, which were eventually translated into global quantitative targets for 2027 tailored to the three market segments.²⁹

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The four challenges initially identified (speed, cost, access and transparency) appear to be more pronounced in the retail and especially remittances businesses as compared to the wholesale domain. The G20 has therefore emphasized the need for improvements in the remittances market, where, for example, fees remain stubbornly high above six percent.³⁰ Moreover, while efficient cross-border payment corridors between higher-income countries typically enable settlement of payments within minutes or even seconds, transfers via other routes often take hours or even days.³¹

The wholesale space already has an efficient cross-border highway for high-value and cross-currency payments, i.e., CLS. The G20 work acknowledges that “existing PvP arrangements such as CLS have made significant progress in reducing settlement risk.”³² At the same time, the G20 still sees obstacles to wider PvP adoption in three areas, and CLS is currently working to address them.³³

²⁸ Wholesale cross-border payments are typically interbank transactions of high value and low volume, while the retail business captures mainly lower-value traditional commerce, e-commerce and tourism. Remittances are understood to be person-to-person payments (of recurring or non-recurring nature) primarily to receivers in emerging and developing economies.

²⁹ FSB (2021) Targets for addressing the four challenges of cross-border payments: Final report; FSB (2022) Developing the implementation approach for the cross-border payments targets: Interim report; FSB (2022) Developing the implementation approach for the cross-border payments targets: Final report.

³⁰ World Bank (2023) Remittance prices worldwide quarterly, issue 45.

³¹ CPMI (2022) SWIFT gpi data indicate drivers for fast cross-border payments.

³² CPMI (2023) Final report – Facilitating increased adoption of PvP.

³³ “Existing PvP arrangements play a significant role in reducing FX settlement risk and optimizing liquidity usage, particularly for AE currencies. New solutions, if properly designed and regulated, may complement existing PvP arrangements to support a wider range of EMDE currencies, reach smaller market participants and provide enhanced functionality such as same-day (or even real-time) PvP settlement.” CPMI (2023), page 25, conclusions.

Offering PvP for more currencies:

CLS settles 18 currencies,³⁴ which are on at least one side of 91 percent of global FX volumes.³⁵ As CLS requires the payment instructions for both legs of a trade to be in one of those 18 currencies, about 20 percent of all global FX trades are currently CLS-ineligible.³⁶ This ineligible share of FX trades can, to a considerable extent, be attributed to emerging market currencies such as the Chinese renminbi, which in recent years has become the fifth most traded currency in the world.³⁷

Progress towards higher PvP rates for emerging market currencies must overcome legal, regulatory³⁸ and geopolitical challenges and will require close collaboration between public and private sector stakeholders to find solutions. CLS has been actively working with the industry to explore alternative PvP mechanisms. For now, CLS is focusing on growing CLSNet, which standardizes and automates the netting calculation process and thereby supports the netting of payments to reduce the payment obligations exposed to FX settlement risk.

Offering PvP to more market participants:

CLS offers FX settlement risk mitigation and substantial liquidity optimization (mainly through multilateral netting) to 74 directly participating settlement members and about 35,000 indirect participants such as banks, funds, non-bank financial institutions and multinational corporations.³⁹

The payments business generally benefits from network effects whereby increasing participation directly increases the system's value for all participants. Such network effects can make systems more attractive, especially to smaller participants with lower volumes and trade values. CLS consequently works on increasing its customer base, and over the past three years, the number of indirect participants in CLSSettlement has risen by 25 percent.

Offering PvP with enhanced (same-day / instant) functionality:

CLSSettlement operates within a five-hour window during which funding and settlement of the payments on underlying FX trades occur.⁴⁰ The payment instructions on both sides of a trade are settled simultaneously, often referred to as 'atomic settlement'.⁴¹

As the world becomes increasingly fast-paced, settlement cycles may shorten (e.g., fueled by the move from T+2 to T+1 for securities in the United States and Canada from May 2024), and operating hours may shift towards 24/7. PvP solutions need to evolve with changing user needs. CLS is therefore studying these developments in close collaboration with its stakeholders.

³⁴ AUD, CAD, CHF, DKK, EUR, GBP, HKD, HUF, ILS, JPY, KRW, MXN, NOK, NZD, SEK, SGD, USD, ZAR.

³⁵ See BIS Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2022.

³⁶ Shaping FX // 01 The FX ecosystem.

³⁷ Caballero, J. et al. (2022) The internationalization of EME currency trading, BIS Quarterly Review December 2022.

³⁸ In order to be eligible for PvP settlement in CLSSettlement, currencies need to meet currency onboarding standards, which derive from the CPMI and IOSCO's Principles for Financial Market Infrastructures (PFMI) and applicable regulations.

³⁹ Almost 80 percent of the top 250 investment managers are settling through CLSSettlement via their custodian banks (excluding Chinese-based investment managers). Indirect participants access CLSSettlement through settlement members that act as third-party service providers.

⁴⁰ Shaping FX 03 // Liquidity benefits: Do (not) settle for less.

⁴¹ CLS Opinion piece // Atomic settlement: Counting down to zero.



The journey ahead

The G20 cross-border roadmap is an unprecedented global initiative. While focusing on roadblocks in the retail and remittances market segments, it has also created important momentum in the wholesale space.

The mitigation of FX settlement risk must remain high on the agenda, and the market especially needs solutions for emerging market currencies with rising FX market shares. A strong public-private partnership – similar to the one that created CLS in 2002 – is needed to tackle these issues, and CLS remains committed to help reach these ambitious goals.



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