



December 29, 2023

Via Electronic Submission

CPMI Secretariat (cpmi@bis.org)
Committee on Payments and Market Infrastructures
Bank for International Settlements

Re: **Governance and Oversight Considerations for Linking Fast Payment Systems Across Borders**

To the Secretariat of the Committee on Payments and Market Infrastructures:

The Clearing House Payments Company, L.L.C.¹ appreciates the opportunity to provide feedback on the governance and oversight considerations set forth in the Committee on Payments and Market Infrastructures' (CPMI) interim report² on the linking of fast payment systems across borders (interlinking arrangements). We agree with the report's observation that interlinking arrangements are one of the most promising solutions for enhancing cross-border payments and that governance and potential oversight of the arrangements will be important factors in the success or demise of such arrangements. For this reason, it is critical that interlinking arrangements be able to develop in a supportive, predictable, and balanced regulatory and supervisory environment. To foster such an environment, we encourage CPMI to

- continue to approach governance for interlinking arrangements in an open, non-prescriptive way;
- not assume that interlinking arrangements will require separate oversight and instead consider whether existing supervisory risk management frameworks may be sufficient, at least in the initial phases of an arrangement, to mitigate any risks such arrangements may present; and
- develop well-defined, public criteria for determining (i) what would make an interlinking arrangement subject to oversight and, (ii) how oversight would be coordinated among different jurisdictional authorities, preferably with a "lead" supervisor.

¹ The Clearing House Payments Company L.L.C. owns and operates core payments system infrastructure in the United States, clearing and settling more than \$2 trillion each day. The Clearing House's website is www.theclearinghouse.org. The views expressed in this letter are those of The Clearing House Payments Company L.L.C. and do not necessarily reflect the views of its owner banks.

² "Interim report to the G20: Linking fast payment systems across borders: considerations for governance and oversight," Committee on Payments and Market Infrastructures (October 2023). (Hereinafter "Interim report")

Governance

We strongly agree with the interim report's observation that there is no one-size-fits-all for governance of an interlinking arrangement. We emphasize the importance for private sector entities to have the freedom to establish governance for their interlinking arrangements that fits their commercial needs, including the likely need to operate interlinking arrangements as low-cost utilities with limited overhead. Hence, while we think the interim report's discussion of governance will be helpful to private and public sector efforts to establish interlinking arrangements, the considerations should not be treated by CPMI members or private sector entities as requirements that interlinking arrangements must satisfy or demonstrate.

Reading the interim report as a "useful reference"³, we agree with its working definition of governance as a set of relationships between stakeholders to an interlinking arrangement and its functional description of governance (i.e., governance identifies which decisions are specific to an interlinking arrangement, who has decision making authority, and how the authority is exercised). We also agree with the six considerations for governance. In particular, a common long-term vision and objectives (Consideration 2) and business viability (Consideration 5) are essential for interlinking arrangements.

With respect to stakeholder involvement (Consideration 6) we think key decision making authority for private sector arrangements should reside with those entities that own or have made material investment in the arrangement. We note that to the extent private, fast payment system (FPS) operators have decision making authority for an interlinking arrangement, those operators may in turn look to their own governance structures, such as their boards, for direction regarding critical decisions for the arrangement. Private sector FPS operators with decision making authority will also be influenced by their own system participants' needs when making decisions about an arrangement. And while private sector interlinking arrangements may not have the capacity to conduct public consultations, they may choose to seek input from end-users on particular matters through advisory groups. While we strongly believe that private, FPS operators will be incented to take into account interests beyond their owners and participants when designing and operating an interlinking arrangement, were such an arrangement to become systemically important we would support a principle similar to that embodied in the Principles for Financial Market Infrastructures that directs the operators to consider a broad spectrum of interests.

Oversight

Regulatory and supervisory clarity is important for private sector arrangements so that their owners and operators can predict costs. It would be helpful to the development of private sector interlinking arrangements for CPMI to recognize that interlinking arrangements that operate as service providers to supervised entities (such as payment system operators and/or banks) will typically be subject to the third-party risk management programs of the supervised entities and, thus, may not need separate oversight. Further, we expect that payment systems that participate in an interlinking arrangement would be

³ Interim report, p.6.

accountable to their domestic supervisors for understanding what risk (if any) their participation may present to the system or its participants and how risk (if any) is managed. Hence, we suggest that CPMI not assume that interlinking arrangements require separate oversight and instead consider what kinds of risks interlinking arrangements may present, to whom, and whether existing supervisory risk management frameworks may be sufficient, at least in the initial phases of an arrangement, to mitigate those risks.

We do not think oversight is necessary for interlinking arrangements (i) that are limited to technical services and contractual arrangements with supervised entities, (ii) do not settle payments⁴, and (iii) in which the arrangement owner/ legal entity is not a party to the payments.

We appreciate that the nature of interlinking arrangements will vary and that perhaps some may present risks that can only be adequately addressed through a separate oversight framework.⁵ To provide clarity there should be well-defined, public criteria for determining (i) what would make an interlinking arrangement subject to oversight and, (ii) how oversight would be coordinated among different jurisdictional authorities, preferably with a “lead” supervisor. Moreover, private sector and public sector arrangements should be subject to equivalent criteria and oversight expectations under the criteria.

In those cases in which oversight is necessary, we agree with the interim report that oversight should be proportionate and coordinated. This will prevent undue cost and burden for the oversight arrangement. Further, it would be critical that the scope of oversight be limited to the interlinking arrangement⁶ and not extend to the FPS’s or their participants and thereby create duplicative oversight that would discourage payment systems from participating in interlinking arrangements.

While we understand and support good communication between a supervised entity and its supervisor, we do not think it is appropriate for supervisors to be informed of the day-to-day management of any private sector operation, including an interlinking arrangement, in a business-as-usual context. For this reason, we disagree with the suggestion in Consideration 10 that management and supervisors/overseers may benefit from “open lines of communication for day-to-day management”⁷ of an interlinking arrangement.

⁴ An arrangement should not be viewed as settling payments if settlement for the payment instructions that make up the end-to-end cross-border payment occurs within participating payment systems and/or through correspondent banking.

⁵ Any separate oversight framework that CPMI may develop would, of course, need to be implemented into the law of any jurisdiction that sought to oversee the arrangement.

⁶ Oversight matters that would be specific to the interlinking arrangement would be (i) its technology (including information security and change management), (ii) its operations (including business continuity), (iii) credit and/or liquidity risk that may be present in the arrangement (if any); (iv) its legal framework; and (v) its governance.

⁷ Interim report, p. 19.

Other Comments

Although not the focus of the interim report, we note the interlinking models referenced in the report⁸ may not reflect all possible interlinking arrangements. Hence, the potential risks of an interlinking arrangement will need to be considered based on the specific design and characteristics of the arrangement rather than risks that might be assumed based on the models.

We also note the report's description of interlinking arrangements as something that enables PSPs/participants of different payment systems in different jurisdictions to "transact with one another as if they were participants in the same system."⁹ The phrase "as if they were participants in the same system" may be intended to simply mean that payments can originate by a participant in one system and be received by a participant in a different system. This is different than suggesting that the participants in the different systems transact as if they were participants in the same system. Participants within a system, at least in the U.S., have legal rights and obligations between them. Interlinking arrangements, depending on their legal framework, may not involve legal rights and obligations between participants of different systems.¹⁰

Thank you for your consideration of these comments. If you have any questions or wish to discuss this letter, please do not hesitate to contact the undersigned.

Yours very truly,



Alaina Gimbert
Senior Vice President and Associate General Counsel
alaina.gimbert@theclearinghouse.org
+1 336.671.9182

⁸ Interim report, Box 2, Graph 2, p.12.

⁹ Interim report, p.5.

¹⁰ For example, the legal framework for payments through an interlinking arrangement may involve legal rights and obligations between each pair of banks involved in the end-to-end payment such that the sending participant in the sending system and the receiving bank in the receiving system have no rights or obligations to each other but instead to another participant in their own system.