Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments: Consultation report

Response to Consultation

Electronic Money Association

General

1. **Is the proposed scope of the recommendations appropriate for addressing frictions arising from data frameworks in cross-border payments?**

The proposed scope of the recommendations appears to be comprehensive and well-targeted for addressing frictions related to data frameworks in cross-border payments. The recommendations cover a broad range of issues, from fostering international collaboration and standardisation to enhancing data privacy and protection, and supporting innovation. This holistic approach is essential for tackling the complexities of cross-border payments, which involve multiple jurisdictions, regulatory frameworks, and technical standards.

Given the increasing role of AI in the financial sector, especially in cross-border payments, it is also important to consider how AI intersects with the recommendations, as well as the benefits of greater adoption of AI, and how clarity around the ability to access data for use with AI applications would be beneficial to achieving AML/CFT goals.

AI systems processing cross-border payment data must adhere to privacy regulations, making it essential for Recommendation 8 to address the intersection of AI with privacy and data protection, ensuring that AI applications remain transparent and respectful of privacy. AI can significantly enhance fraud detection and AML/CFT compliance, so recommendations should consider how AI tools are integrated into payment systems while aligning with existing data standards and privacy requirements.

Since AI relies on high-quality, consistent data, recommendations should ensure data used for AI is standardised, addressing potential frictions from data inconsistencies. Furthermore, AI systems should be designed for transparency and accountability, with guidelines for the transparency of AI algorithms used in cross-border payments. Developing specific regulatory frameworks for AI applications can ensure responsible and ethical use, and recommendations should facilitate cross-border data transfers necessary for AI while adhering to privacy and regulatory standards.

2. **What, if any, additional issues related to data frameworks in cross-border payments, beyond those identified in the consultative report, should be addressed to help achieve the G20 Roadmap objectives for faster, cheaper, more accessible and more transparent cross-border payments?**

   It is important to address the consumer duty and end-user protection for achieving the G20 Roadmap objectives for faster, cheaper, more accessible, and more transparent cross-border payments, as it ensures that the interests of consumers are safeguarded within the complexities of international transactions. By setting robust standards of consumer protection across financial services, firms are mandated to prioritise their customers' needs, which enhances trust and reliability in the system. This is particularly important in cross-border payments where consumers may face significant risks such as fraud, hidden fees, and inadequate recourse. Implementing stringent data frameworks that uphold these standards helps to mitigate these risks, fostering a safer and more efficient payment environment that aligns with the G20's goals and promotes equitable financial inclusion.

3. **Is the proposed role of the Forum (i.e. coordinating implementation work for the final recommendations and addressing existing and newly emerging issues) appropriate?**

   The proposed role of the Forum seems well-suited to address the complex landscape of cross-border payments and related data issues. However, we note that currently the List of private sector members does not include any smaller market participants, who constitute a significant proportion of the economy, and a growing proportion of the payments ecosystem. To ensure diverse representation a broad range of stakeholders such as small financial institutions and fintech companies could be included. This inclusivity can provide varied perspectives and provide industry feedback for understanding the feasibility of proposed changes and for identifying potential barriers.

Section 1: Addressing uncertainty about how to balance regulatory and supervisory obligations

4. **Discussions with industry stakeholders highlighted some uncertainties about how to balance AML/CFT data requirements and data privacy and protection rules. Do you experience similar difficulties with other types of "data frameworks" that could be addressed by the Forum? If so, please specify.**

   Non-bank PSPs frequently operate across multiple jurisdictions, each with its own AML/CFT regulations. Balancing AML/CFT data requirements with consumer protection obligations can pose significant challenges for non-bank PSPs. On one hand, non-bank PSPs must adhere to strict regulatory standards to prevent money laundering and terrorism financing, which often requires extensive data collection and monitoring. On the other hand, they are obligated to deliver the best outcomes for consumers, which includes providing clear communications, offering products and services that meet consumer needs, ensuring fair value, and delivering timely customer support. The complexity arises when the obligatory data collection and compliance processes create friction or confusion for consumers, potentially hindering their understanding or access to services. Additionally, the need for rigorous monitoring might conflict with the consumer's expectation of privacy and seamless service.

PSPs must navigate these tensions carefully, finding ways to meet regulatory obligations without compromising on the quality of consumer experience, transparency, or support. This often requires innovative solutions, such as leveraging technology to streamline compliance while enhancing customer experience, or adopting a customer-centric approach to data handling that prioritises clarity and fairness.

5. **What are your suggestions about how the Forum, if established, should address uncertainties about how to balance regulatory and supervisory obligations?**

To effectively address the uncertainties surrounding the balance of various obligations under different data frameworks in cross-border payments, the Forum must take a structured approach and establish clear objectives that prioritise regulatory compliance as well as the protection of fundamental principles such as AML/CFT, fraud prevention, and data privacy. It is important to recognise that banks are no longer the sole gatekeepers of the financial system - new players like fintech companies also play this role and take AML and CDD requirements seriously. These fintech companies, alongside traditional banks, should be treated accordingly, ensuring that their contributions to compliance are acknowledged and integrated into the regulatory framework.

Establishing working groups composed of diverse representatives focused on different aspects of regulatory and supervisory obligations will facilitate a structured framework and coordination. These groups should include representatives from relevant authorities, international organisations, standard-setting bodies, and private sector representatives, including small and medium-sized financial institutions and fintech companies, to ensure diverse perspectives. Additionally, it is important to consider existing and emerging payment services, ensuring that any framework developed is adaptable and inclusive of all relevant players in the payment ecosystem.

The Forum should create a set of best practices that outline how regulatory and supervisory obligations should be balanced. These practices must provide enough flexibility for country-specific laws and regulations and be evaluated against their effectiveness, safety, and inclusivity. The Forum must engage with diverse industry stakeholders, including financial institutions and fintech companies, to gather feedback on how regulatory and supervisory obligations are being balanced. This feedback should be used to make necessary adjustments to any approach taken, ensuring that the Forum’s strategies remain practical, inclusive, and effective in a rapidly evolving financial landscape

6. **Are the recommendations sufficiently flexible to accommodate different approaches to implementation while achieving the stated objectives?**

Yes, the recommendations are focusing on broad principles rather than prescribing specific actions, allowing for adaptation to various national contexts and existing frameworks. This approach will allow jurisdictions to align with international best practices while adapting to their unique regulatory environments and technological capabilities.

Section 2: Promoting the alignment and interoperability of regulatory and data requirements related to cross-border payments

7. **The FSB and CPMI have looked to increase adoption of standardised legal entity identifiers and harmonised ISO 20022 requirements for enhancing cross-border payments. Are there any additional recommendation/policy incentives that should be considered to encourage increased adoption of standardised legal entity identifiers and the CPMI's harmonised ISO 20022 data requirements?**

   To effectively promote the adoption of ISO 20022 and legal entity identifiers (LEIs), it is crucial to highlight their benefits within the context of specific business models, particularly for small businesses that may lack the infrastructure to invest in technologies that enable regional and global expansion. This requires a comprehensive strategy that includes financial incentives, regulatory support, and awareness through education. The adoption of LEIs and the migration to ISO 20022 will enhance data granularity, leading to smoother money transfers, improved customer experience, and greater automation of processes. It is important to communicate to PSPs that ISO 20022 is a transformative technology offering smarter and faster financial operations, especially for small and micro businesses. Educational initiatives like webinars and workshops can illustrate how ISO 20022's advanced data capabilities and compliance benefits meet the unique needs of various businesses. Providing technical support, sharing success stories, and collaborating with industry bodies can further drive adoption by demonstrating tangible benefits and offering practical guidance. Additionally, advocating for phased implementation, fostering a supportive community, and presenting a clear long-term vision for ISO 20022's role in global interoperability and technological progress will underscore its value in enhancing operational efficiency and promoting business growth.

8. **Recommendation 4 calls for the consistent implementation of AML/CFT data requirements, on the basis of the FATF standards (FATF Recommendation 16 in particular) and related guidance. It also calls for the use of global data standards if and when national authorities are requiring additional information. Do you have any additional suggestions on AML/CFT data-related issues? If so, please specify.**

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9. **Industry feedback highlights that uneven regulatory expectations for sanctions compliance create significant frictions in cross-border payments affecting the Roadmap objectives. What actions should be considered to address this issue?**

   To address frictions from uneven regulatory expectations for sanctions compliance in cross-border payments, a comprehensive approach is needed. This includes developing and promoting international standards to harmonise sanctions regulations, creating global coordination bodies to align compliance expectations, and implementing standardised formats for sanctions lists to ease integration. Clear guidance and best practices should be provided internationally, alongside enhanced mechanisms for data sharing and transparency to keep institutions updated on evolving requirements. Promoting training and capacity building ensures institutions are equipped to manage compliance effectively, while flexible, technology-driven solutions can adapt to varying regulations. Regular reviews and updates of compliance frameworks are crucial to address emerging issues and maintain

alignment with international standards. These actions collectively aim to reduce regulatory frictions, enhance consistency, and improve cross-border payment systems.

10. **Do the recommendations sufficiently balance policy objectives related to the protection of individuals' data privacy and the safety and efficiency of cross-border payments?**

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Section 3: Mitigating restrictions on the flow of data related to payments across borders

11. **The FSB understands that fraud is an increasing challenge in cross-border payments. Do the recommendations sufficiently support the development of data transfer tools that specifically address fraud?**

    The FSB recommendations address various aspects of data management and cross-border payments, but there is room for more focused support on the development of data transfer tools specifically targeting fraud prevention. While the recommendations emphasise resolving data framework frictions, ensuring consistent data standards, and improving collaboration among stakeholders, additional measures could enhance their effectiveness in combating fraud. The establishment of the Forum (Recommendation 1) and the development of consistent data frameworks (Recommendation 2) provide a foundation for addressing fraud, but more targeted initiatives could be beneficial. For instance, increasing emphasis on fraud-specific data transfer tools and technologies, enhancing real-time data analytics for fraud detection, and promoting the integration of advanced fraud prevention systems within the ISO 20022 standards (Recommendation 3) could significantly strengthen efforts. Recommendations 7 and 9 touch on improving data flows and providing clear pathways for data transmission, which are crucial for fraud prevention. However, dedicated initiatives to encourage the adoption of fraud detection technologies and the sharing of fraud-related data across borders could further strengthen these efforts. Additionally, fostering innovation and public-private partnerships (Recommendation 12) should specifically include support for developing and deploying advanced fraud prevention tools. By integrating these focused actions into the existing recommendations, the framework could better address the growing challenge of fraud in cross-border payments.

    The EMA supports greater alignment and clarity around the measures and/or tools that are needed to enable banks and PSPs to engage in cross-border data transfers, as the lack of clarity in how to appropriately implement cross-border data transfers can create inefficiencies in the implementation of AML/CFT processes.

12. **Is there any specific sectoral- or jurisdiction-specific example that you would suggest the FSB to consider with respect to regulation of cross-border data flows?**

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Section 4: Reducing barriers to innovation

13. How can the public sector best promote innovation in data-sharing technologies to facilitate the reduction of related frictions and contribute to meeting the targets on cross-border payments in 2027?

Non-bank PSPs encounter challenges when trying to access payment systems and infrastructure, which are sometimes designed with traditional banking institutions in mind. These barriers can limit competition and innovation in the payments space. To effectively promote innovation in data-sharing technologies and reduce friction for non-bank payment service providers (PSPs), especially given the current de-risking practices and regulatory challenges, the public sector needs to adopt strategies that will not only address existing barriers but also support the broader goal of enhancing cross-border payments by 2027.

De-risking practices by banks can severely limit access to financial services for non-bank PSPs, often resulting in reduced competition and innovation within the payments sector. To counteract this, the public sector can take proactive measures by promoting risk-based approaches to financial institutions. This involves encouraging banks to develop frameworks that assess risks based on the specific characteristics and operational profiles of non-bank PSPs, rather than applying broad, blanket de-risking strategies that may unfairly exclude these entities. Additionally, supporting the development and adoption of alternative financial solutions, such as blockchain technology and digital currencies, can provide non-bank PSPs with innovative ways to interact with financial systems, helping to mitigate the adverse effects of de-risking and fostering a more inclusive financial ecosystem.

14. Do you have any further feedback not captured by the questions above?

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