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

Response to Consultation

Japanese Bankers Association

General

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

   Yes, it is appropriate.

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?**

   -

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?**

   Yes, it is appropriate.

   We agree with the composition of the forum but how private stakeholders will be involved in the activity of the forum should be carefully considered. Considering the nature of matters related to the regulation and supervision of international frameworks such as this consultation paper, it would be more effective and efficient to first deepen discussions among regulatory authorities while sharing the discussions with the private sector in a timely manner. Then, if necessary, those authorities should consult with private sector stakeholders in each jurisdiction basis. Such jurisdiction-based consultations will enable the appropriate collection of opinions from the private sector that cannot be captured by an advisory group consisting of private stakeholders invited to participate on a voluntary basis, and will enable discussions that contribute to more effective implementation at the jurisdictional level.

   The scope of issues to be addressed by the forum is broad. Standardisation of the format of sanction lists which is indicated in Recommendation 5 would be beneficial and thus should be prioritised at the forum.

In addition, since the transfer of data across borders need customer understanding in the practical implementation phase, public relations activities to gain public understanding should be considered by the forum, if necessary.

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.**

   -

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

   We agree with the direction shown in Recommendation 2.

   Please refer to the response to Q3 for the composition of the forum.

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

   Yes, it is sufficiently flexible.

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?**

   We agree with the general idea of standardised legal entity identifiers, but it is necessary to give consideration to the system development by market participants to adopt the identifiers. It would be difficult for market participants to consider the introduction of the identifiers without some support measures and incentives for market participants to invest in the system.

   In other words, we recognise that there is a cost-effectiveness challenge in implementing standardised legal entity identifiers. Although the use of standardised identifiers improves data quality and transparency, for example, since there are only a few corporations in Japan that possess LEI, it is highly likely that the expected effect will not be achieved. In addition, the acquisition and maintenance of LEI is costly, and the development and maintenance of the system is burdensome, making it difficult to use LEI as a standard business practice.

Therefore, incentives for the private sector are necessary to promote the use of standardised legal entity identifiers.

One of the purposes of the introduction of standardised legal entity identifiers is to reduce false positives of filtering in Recommendation 5 but it is unlikely to be very effective without an (globally unified) identifier which covers all legal entities engaged in cross-border payments. If such a unified identifier is adopted and attached to each entity listed in the sanction lists issued by national authorities, each financial institution can conduct transaction filtering using it. It will be helpful for reducing false positives only after such a situation is ensured.

On the other hand, from the perspective of streamlining the process of alerts verification, such a public identifier would enable more rapid and accurate verification, if some kind of public identifier is assigned to a legal entity, and if there is a database about the legal entity that can be accessed by each financial institution.

However, from the perspective of financial inclusion, it is important to note that mandating the inclusion of such public identifiers could potentially exclude certain jurisdictions of cross-border payments.

In addition, from the perspective of promoting the adoption of the CPMI's harmonised ISO 20022 data requirements, the details of the "purpose of transaction" must be clear and confirmed in the case of inward payment, however information is usually not clear in many transactions and it is necessary for the beneficiary bank to confirm this information with the recipient one by one, so frictions in the processing of cross-border payments could continue to persist even as the CPMI's harmonised ISO 20022 data requirements are adopted. Therefore, appropriate direction shown by the forum and others is needed to remedy this situation.

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.**

FATF Recommendation 16 stipulates the data required in payment messages for AML/CFT compliance. We would additionally like to request a discussion about the standardisation of AML/CFT data formatting used for interbank exchanges. It is difficult to respond to the RFI （Request for Information） because the contents of the RFI differ depending on the banks. It would be helpful to further discussion about the standardised format of RFI to facilitate interbank exchanges of AML/CFT data.

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?**

-

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?**

    Yes, they do.

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?**

    Yes, they do.

    However, as fraud methods are becoming more diverse and sophisticated day by day, case studies need to be updated continuously.

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?**

    -

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?**

    -

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

    -