

September 9, 2024

Financial Stability Board
c/o Secretariat to the Financial Stability Board
Bank of International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Submitted via email: fsb@fsb.org

RE: *Recommendations for Regulating and Supervising Bank and Non-bank Payment Service Providers Offering Cross-border Payment Services: Consultation Report*

Dear Secretariat to the Financial Stability Board:

The Independent Community Bankers of America (“ICBA”)¹ appreciates the opportunity to comment on the consultative report titled *Recommendations for Regulating and Supervising Bank and Non-bank Payment Service Providers Offering Cross-border Payment Services*.² We recognize that cross-border payments experience inefficiencies that demand public-private collaboration to find appropriate solutions. Therefore, we welcome the Financial Stability Board’s (“FSB”) efforts to execute the broad goals established by the G20 and seek feedback from the banking industry in order to accomplish this objective.³ We support the FSB’s work to highlight the contradictions between the regulation, supervision, and oversight of banks and non-bank payment service providers (“non-bank PSPs”) in the cross-border payments space. Bridging this regulatory gap is essential to address growing risks posed by non-bank entities; however, ICBA strongly disagrees with arguments throughout this report that frame banks as obstacles for non-bank PSPs, effectively encouraging central banks to grant non-banks access to settlement accounts and payment systems.

¹ *The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation’s community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America’s community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers’ financial goals and dreams. For more information, visit ICBA’s website at www.icba.org.*

² Financial Stability Board, “Recommendations for Regulating and Supervising Bank and Non-Bank Payment Service Providers Offering Cross-border Payment Services: Consultation Report,” July 16, 2024, <https://www.fsb.org/wp-content/uploads/P160724-2.pdf>.

³ Financial Stability Board, “G20 Targets for Enhancing Cross-border Payments,” <https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/cross-border-payments/g20-targets-for-enhancing-cross-border-payments-2/>.

The Document

As the latest step in its efforts to implement the G20 objective to improve cross-border payments by 2027, the FSB has published a consultation paper that outlines several policy recommendations to enhance consistency in the regulation and supervision of banks and non-banks that offer cross-border payment services. The FSB notes that jurisdictions have taken different approaches to respond to changing payment technologies and the rise of non-bank providers, leading to an expanding divide in regulatory, supervisory and oversight practices. The report emphasizes that there currently no “comprehensive international standards applicable to non-bank PSPs’ provision of cross-border payment services.”⁴ The FSB details current frictions and risks in cross-border payments, including concerns about consumer protection, operational risks, and illicit finance. Consequently, the FSB is concerned that inconsistencies across jurisdictions, especially for non-bank PSPs, leave some risks unaddressed or inadequately addressed.

To address these risks, as well as the growing inconsistencies across borders, the FSB establishes five principles to ground its policy recommendations:

- 1) Cross-border payment supervisory and regulatory regimes should be designed to promote safe, resilient, and efficient payment services.**
- 2) The supervisory and regulatory regimes applicable to cross-border payment activities should be proportionate to the risks that they present.**
- 3) The supervisory and regulatory regimes for PSPs should respond accordingly to changes in national and international payment services landscapes.**
- 4) The supervisory and regulatory regimes for PSPs should be clearly articulated.**
- 5) The regulatory and supervisory regimes for cross-border payments should facilitate cooperation, coordination and information sharing within and across jurisdictions.**

The report then builds on these principles by proposing six recommendations “to strengthen consistency between the regulatory and supervisory regimes for banks and non-banks concerning the provision of cross-border payment services and are focused on providers of services to end-users.”⁵ The recommendations are as follows:

⁴ “Recommendations for Regulating and Supervising Bank and Non-Bank Payment Service Providers Offering Cross-border Payment Services: Consultation Report,” 1.

⁵ Ibid, 4.

- 1) **Competent authorities should conduct risk assessments of the cross-border payments sector, the aim of which should be to identify, understand and assess the risks associated with PSPs active in cross-border payment services.**
- 2) **Competent authorities should review existing regulatory, supervisory and oversight regimes based on the findings of the payment sector risk assessments to ensure that the regimes 1) address all the key risks identified, 2) are proportional to the risks identified, with particular attention to operational risks (e.g. fraud, cyber and third-party risks), resilience and ML, TF and other illicit finance risks, and 3) are applied consistently and in coordination with all relevant competent authorities across the sector. Competent authorities should consider undertaking or seeking adjustments to laws, regulations, and supervision and oversight models as needed.**
- 3) **Competent authorities' regulatory and supervisory regimes related to cross border payments should be designed to promote consumer protection and address consumer harms.**
- 4) **Competent authorities should develop, publish and communicate payments related supervisory and oversight expectations to promote safe and efficient payment services, including the guidance relating to application of the risk-based approach.**
- 5) **Competent authorities should 1) review licensing or registration criteria for risk-proportionate requirements, including measures to promote consumer protection and address new services such as account information services, payment initiation services, digital wallets, and the provision of services through agents; and, if necessary, 2) adjust the licensing or registration process for PSPs to incorporate such requirements as conducting fit and proper tests, reviews of AML/CFT compliance programs and oversight of agents and other intermediaries.**
- 6) **Competent authorities both within and across jurisdictions should, where applicable, implement or expand cooperative arrangements for information sharing to support access to relevant information and data for comprehensively assessing risks as well as the sources of frictions and, when appropriate, supporting regulatory or supervisory action.**

ICBA Comments

Community banks play vital roles in the United States by facilitating cross-border payment services for their clients. Oftentimes, they are the only financial services provider in their communities, especially in counties with less than 50,000 residents.⁶ In this capacity, their services are critical to connecting rural and/or underserved communities to the wider economy through business payments and remittances. Given this responsibility, ICBA has closely followed efforts to fulfill the G20's directive to enhance cross-border payments by 2027, and we welcome the opportunity to offer the community bank perspective to this undertaking.

⁶ *Banking Strategist*, "Community Banks: Number by State and Asset Size," <https://www.bankingstrategist.com/community-banks-number-by-state-and-asset-size>.

To that end, we appreciate the FSB’s comprehensive analysis of existing regulatory frameworks for non-bank PSPs and the key differences between their regulation and the regulation of banks in cross-border payments market. We agree with the main argument that this gap is significant and must be closed to mitigate risks to consumers and the financial system, as well as promote a level playing field of regulatory, supervisory, and oversight obligations. However, we have questions about some of the conclusions and recommendations established within this report.

ICBA and its members elected to submit our response via email, instead of the online form, to help call attention to the issues of most significance to community banks.

Non-Bank Cross-Border PSPs Should Be Subject to Enhanced Regulation, Supervision and Oversight

ICBA and our members agree with the basic premise surveyed throughout this report that non-bank payment service providers involved in cross-border payments are not subject to the same level of regulation, supervision, and oversight as banks engaged in the same activities. Likewise, we agree that the current level of regulation, supervision, and oversight of these non-bank entities has not kept pace with either their growth within the marketplace or the rapid pace of technological development. A proper level of regulation, supervision, and oversight is essential to ensure financial stability, provide consumer protection, and mitigate operational and illicit finance risks. Consequently, we respect the five guiding principles established within this document as a reasonable foundation for domestic and international policymakers to continue their work to close the gap between banks and non-bank entities.

Regulatory Imbalances Impair Community Banks’ Ability to Innovate Cross-Border Payments

While ICBA supports the basic premise of the report and its foundational principles, we question comments in this report that seem to suggest that non-bank entities are the only ones capable of creating innovative cross-border payment solutions. For example, the report states, “Non-bank PSPs’ development of innovative payment solutions have led to increased processing speed and cost-efficiency.”⁷ What the report fails to consider, however, is that the lack of adequate regulation, supervision, and oversight—the very issue that the FSB is trying to challenge with this effort—in fact plays a significant role in non-bank PSPs being able to offer faster and less expensive services. This imbalance is not a feature that should be championed. Instead, it should stand out as a glaring example of how the regulatory gaps between non-banks and banks creates inequalities that harm competition.

The additional compliance costs and requirements that banks face too often serves as a deterrent to banks wishing to develop new products and services as quickly as non-bank entities that are not subject to the same standards

⁷ “Recommendations for Regulating and Supervising Bank and Non-Bank Payment Service Providers Offering Cross-border Payment Services: Consultation Report,” 1.

and costs. These expenditures will likely rise in the coming years as banks strive to implement any new policies or recommendations that may result from the ongoing G20 effort to enhance cross-border payments. If non-banks are subject to the same regulatory and supervisory scrutiny as banks, the resulting more level playing field will lead to increased competition allowing for banks to offer more innovative products and services, without the same risk to customers and the payments system. We urge the FSB to reconsider the conditions that allow for non-banks to deliver seemingly “innovative” services and to give more thought to easing the regulatory burden for banks so they have greater capacity to focus on the critical goal of improving cross-border payments.

National Laws and Regulations Must Guide Non-Bank Access to Settlement Accounts and Payment Systems

The report examines how non-bank PSPs access payment systems, noting that “[in] most jurisdictions, laws and regulations currently exclude non-banks from directly accessing systemically important payment systems or maintaining settlement accounts with central banks, causing them to rely directly on participating banks for indirect participation.”⁸ However, the section on the “Impact of Regulatory and Supervisory Inconsistencies” concludes that this arrangement means that “[n]on-banks may also face lowering processing speeds when they indirectly participate through one or more commercial banks.”⁹ We find this statement concerning because it implies that community banks act as barriers to efficient and cost-effective cross-border payments. This statement also seems to suggest that more jurisdictions should provide non-bank PSPs with greater access to payment systems and settlement accounts with central banks, without regard to the resulting risks of doing so.

ICBA recognizes that other countries have permitted certain non-bank payment providers with such access; however, those same countries do not have the same robust banking system as the United States. As the trade association for American community banks, ICBA strongly opposes any effort to allow non-banks access to the payments system and settlement accounts with the Federal Reserve—such an extraordinary step would be neither a “silver bullet” to solve for better cross-border payments nor a way to create parity between banks and non-bank entities. Any proposal to develop such pathways for non-banks in the United States will inevitably lead to heightened risk and volatility within in the payments system as non-banks do not face the full range of legal and regulatory obligations placed on regulated and insured banks.

Moreover, the report fails to examine the possibility of non-bank PSPs being affiliated with commercial entities, such as large technology companies. The blend of banking and commerce is volatile cocktail that poses significant risks. If such entities gain access to settlement accounts and payment systems, those risks can more easily spread across the financial system during times of stress. Therefore, we call on the FSB to clearly state that it recognizes that individual nations retain the authority to determine which parties may interact directly with their payment systems and settlement accounts with central banks. This discretion ensures the integrity and well-being of domestic and international financial systems.

⁸ Ibid, 12.

⁹ Ibid, 12-13.

Conclusion

ICBA appreciates the opportunity to provide comments on this consultative document. We look forward to additional engagement with the wider cross-border payments community, and in furtherance of safe and sound cross-border payments policy that recognizes the valuable role that community banks play in connecting their customers to the global marketplace of the 21st century.

If you have any questions or would like additional information, please do not hesitate to contact me at brian.laverdure@icba.org.

Sincerely,

/s/

Brian Laverdure
Senior Vice President, Digital Assets and Innovation Policy