

CROSS-BORDER PAYMENTS



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Toward a balanced approach to cross-border payments: Navigating divergent needs

From the perspective of FSA Japan, what are the key regulatory and supervisory priorities for meeting the G20 cross-border payments targets, and how is Japan addressing challenges such as AML/CFT alignment, interoperability, and access for non-bank players?

As Japan's integrated regulator and supervisor responsible for financial stability, consumer protection, and market integrity, the Financial Services Agency (FSA) places equal importance on all four objectives agreed upon by the G20. In implementing each priority action of the roadmap, the FSA emphasizes the importance of striking a good balance between achieving "faster, cheaper, more transparent, and more inclusive cross-border payments" and maintaining other policy requirements such as safety, security, integrity, efficiency and fair competition. Without robust safety and security measures, fast and low-

cost cross-border payments cannot be sustained over time. At the same time, cross-border payment systems must not be used for criminal purposes.

Accordingly, while promoting innovative cross-border payment systems, the FSA requires both banks and non-bank payment service providers to appropriately address key risks, including customer protection, anti-money laundering, countering the financing of terrorism and counter-proliferation financing (AML/CFT/CPF), and cyber and operational resilience.

In terms of efficiency, the FSA supports further utilization of universal identifiers such as the Legal Entity Identifier (LEI), which can facilitate interoperability among systems and enhance data comparability.

Furthermore, the FSA is committed to ensuring a level-playing-field between banks and non-bank entities. In doing so, it maintains a technology-neutral stance and applies the principle of "same activity, same risk, same regulation" to its regulatory and supervisory frameworks. In addition, it adopts a risk-based approach, calibrating the intensity of regulation and supervision according to the level of risk involved.

With the transforming landscape, engaging in close dialogue with various stakeholders is crucial.

How is Japan balancing innovation and risk in enabling faster, cheaper, and more transparent cross-border flows, particularly in the Asia-Pacific region?

When considering regulatory frameworks for cross-border payments, it is essential to take into account a wide range of needs. Prioritizing only one aspect may result in compromising others. For example, if financial institutions and money transfer operators are strongly urged to operate systems 24/7 or adopt straight-through processing (STP) to improve speed, the substantial costs associated with system development and operational restructuring may lead some providers to withdraw from the market. In such cases,

other objectives—such as access—could be undermined. It is therefore crucial to adopt a balanced approach that comprehensively considers all relevant factors.

In the Asian region as well, all four G20 objectives are important. However, the region faces unique circumstances, such as a significant time difference with Western countries where many remittance senders, including migrant workers, reside—making speed more difficult to achieve. Japan also has its own distinct transaction practices, partly due to the absence of major domestic financial crises over the years. Accordingly, a one-size-fits-all approach across different jurisdictions is inappropriate.

Looking ahead, what do you see as most necessary to future-proof cross-border payments and how can cooperation among G20 and non-G20 jurisdictions be strengthened to ensure inclusiveness and regulatory convergence?

Currently, the global landscape surrounding cross-border payments is undergoing significant transformation, driven by the growing adoption of stablecoins, upgrades in correspondent banking network, progress in various projects led by the BIS Innovation Hub, and the rise of fintech firms. In such a fluid environment, while cross-border payments may improve substantially, there is also a heightened risk of regulatory and supervisory divergence across jurisdictions, which could lead to regulatory arbitrage or a "race to the bottom" and market fragmentation.

To mitigate these risks, it is crucial to engage in close and continuous dialogue with a wide range of stakeholders, including non-G20 jurisdictions and industry participants. The FSA actively contributes to international discussions led by the Financial Stability Board (FSB). This includes participation in public-private task forces focused on legal, regulatory, and supervisory frameworks, as well as involvement in the Forum on Cross-Border Payments Data, which was established based on the Recommendations for data frameworks, as well as its outreach committee—the Regional Consultative Group for Asia (RCGA). It also engages in initiatives of the Regulatory Oversight Committee (ROC) related to unified identifiers. Furthermore, the FSA leads the work of the Financial Action Task Force (FATF), which includes efforts to improve cross-border payments while maintaining market integrity.



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Keeping settlement risk high on the public policy agenda

In recent months, geopolitical and macroeconomic factors have sent waves of volatility and volume through the FX markets. In April 2025, CLS saw record average daily traded volumes of USD2.54 trillion, an increase of 17.9% from April 2024.

Volatility can increase settlement risk, as it can lead to liquidity shortfalls and timing mismatches. CLS was founded to mitigate this risk by synchronizing the settlement of payment instructions for both currency legs of a trade with finality. We provide payment-versus-payment (PvP) functionality, so a party's payment instruction in one currency is not settled until the corresponding payment instruction in the counter currency is also settled.

In the first half of 2025, CLS settled an average daily value of USD7.9 trillion for 18 of the world's most traded currencies, capturing 90% of the CLSSettlement addressable market. However, the proportion of FX trades not settled on a PvP basis has increased in recent years, driven mainly by an increase in the turnover of trading in emerging markets and developing economies (EMDE) currencies.

According to the BIS 2022 Triennial Survey, the share of EMDE currencies

in total FX turnover has grown from 5.5% of trades in 2010 (total FX turnover volumes: USD2 trillion) to 8.5% in 2022 (total FX turnover volumes: USD7 trillion).

These trends underscore the need for settlement risk mitigation to remain a priority in terms of public policy. Encouragingly, FX stakeholders are addressing this through several ongoing initiatives.

Expanding settlement risk mitigation

In 2020, the G20 launched a program to overcome long-standing challenges in cross-border payments. The G20 cross-border roadmap acknowledges that PvP arrangements mitigate FX settlement risk for wholesale cross-border payments.

As part of its ongoing work stemming from that roadmap, CLS actively contributes to the Payments Interoperability and Extension Task Force, which recently published a report that provides the industry perspective and outlines suggested next steps for mitigating FX settlement risk.¹

FX Global Code

In January 2025, the Global Foreign Exchange Committee published the latest FX Global Code, to which CLS contributed. This Code is a set of best practice principles for the FX market. A key addition is the idea of a "risk waterfall approach" for managing settlement risk, which prioritizes PvP settlement.

Where that is not available, such as for EMDE currencies, the Code recommends netting to mitigate risk. CLSNet, our standardized, automated bilateral payment netting calculation service for over 120 currencies including EMDE currencies, can help meet these recommendations.

Insight into outstanding risk

Later this year, the BIS will publish its 14th Triennial Survey, the most expansive source of information on the size and structure of the FX market. The survey results (covering more than 1,100 financial institutions and 52 reporting jurisdictions) will help to bring greater transparency on key FX data, like the volume of EMDE currency trading and estimates on the amount of outstanding settlement risk.

Public-private power

These initiatives are good examples of public-private sector collaboration, which CLS supports as the optimal model to solve FX industry challenges.

CLS is working with the wider industry and public sector to find solutions for other developing FX market infrastructure challenges.

One area is same-day settlement. While still niche, discussions around same-day and instant settlement have intensified in the FX space recently. There are also more global experiments in the central bank digital currency space, which emphasize the benefits of instant settlement.

However, many initiatives often overlook the impact on liquidity. To enable more same-day settlement, more frequent settlement cycles may be required. As settlement frequency increases, netting efficiency can decrease and lead to higher funding requirements for market participants.

The ongoing need for settlement risk mitigation must remain a public policy priority.

CLSSettlement delivers multilateral netting which considerably reduces the cash needed to settle the payment of trades on a given day. As a result, this releases on average, 96% of cash flow for other business operations like trading and business growth.²

Assuming same-day settlement becomes less niche, the question is, how do we move closer to same-day settlement without losing these key benefits? CLS recently partnered with FNA on a research report to explore this further.³

CLS is uniquely placed at the center of the FX ecosystem. We will continue to work with the public and private sectors to find solutions to industry challenges. Currently, addressing rising settlement risk is the most pressing challenge, and it is important that the topic stays high on the policy agenda.

1. https://www.bis.org/cpmi/cross_border/events.htm
2. CLSSettlement utilizes other liquidity-saving tools to reduce funding requirements to 1% on average.
3. <https://www.cls-group.com/insights/innovation/report-reimagining-same-day-fx-exploring-the-case-for-additional-settlement-cycles-shapingfx-series/>