

## **Toward a Balanced Approach to Cross-Border Payments: Navigating Divergent Needs**

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

*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.

*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.