NEWSLETTER

An International Initiative to Address Frictions in the Flow of Data Relating to Cross-border Payments

– Balancing Conflicting Obligations, Alignment and Interoperability: Publication of the FSB Final Report –

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1. Introduction

On December 12, 2024, the Financial Stability Board ("**FSB**") published the "Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments: Final Report" ("**Final Report**").[1] [2] Thereafter, on March 27, 2025, the FSB announced the establishment of the Forum on Cross-border Payments Data ("**Forum**"), a platform for dialogue, information exchange, and research on issues pointed out in the Final Report.[3] The Final Report is a compilation of recommendations intended to mitigate unintended frictions impacting cross-border payments without compromising on the underlying objectives of **data frameworks** (as defined in section 3 below), such as the security of transactions, anti-money laundering/countering the financing of terrorism ("**AML/CFT**"), sanctions, and data protection and privacy rules; however, some of the approaches taken in the Final Report also serve as an instructive playbook, not only for financial sectors but also for non-financial sectors.

2. Background

The FSB is an international body that monitors and makes recommendations about the global financial system, comprised of senior policy makers from the ministries of finance, central banks, and supervisory and regulatory authorities from G20 countries and certain other countries or regions, as well as certain international and regional bodies.

In October 2020, in line with a request by the G20, the FSB identified four challenges associated with cross-border payments, specifically, **high costs, low speed, limited access, and insufficient transparency**.[4]

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1 https://www.fsb.org/2024/12/recommendations-to-promote-alignment-and-interoperability-across-data-frameworks-related-to-cross-border-payments-final-report/

2 For reference, on the same date, the FSB published another report (titled "Recommendations for Regulating and Supervising Bank and Non-bank Payment Service Providers Offering Cross-border Payment Services: Final report"). That report was referred to in the discussions at the Financial System Council (*see* page 8 of the council's report published on the following website, in Japanese only) over what now has evolved into a legislative proposal to amend the Payment Services Act, which is under deliberation by the Diet at this time (March 31, 2025).
https://www.fsa.go.jp/singi/singi_kinyu/tosin/20250122.html

3 https://www.fsb.org/2025/03/fsb-announces-establishment-of-the-forum-on-cross-border-payments-data/

4 https://www.fsb.org/2020/04/enhancing-cross-border-payments-stage-1-report-to-the-g20/

Thereafter, the FSB, acting in coordination with the Bank for International Settlements' Committee on Payments and Market Infrastructures ("**CPMI**") and other international organizations and standard-setting bodies, developed the requested **roadmap**[5] (which was endorsed by the G20 leaders at the November 2020 Summit), which was updated in February 2023.[6] Among the listed methods (called "Actions" in the updated roadmap) by which to advance the priority themes is enhancing the interaction between data frameworks and cross-border payments (Action 7).

In September 2023, after taking stock of existing data frameworks as set out in the original roadmap, the FSB published a report on results,[7] identifying a number of frictions resulting from data frameworks that pose significant challenges to improving the cost, speed, transparency, and accessibility of cross-border payments. The following sentences from the report encapsulate the essence of what the stocktake has identified:

(i) "*Fragmentation among data framework requirements and their implementation, most notably across the data needed to accompany a cross-border payment transaction.*" (e.g., divergence in how Financial Action Task Force (FATF) Recommendation 16 (*see* section 3, part (2) below) has been implemented)

(ii) "*Uncertainty among payment providers on how to balance the various obligations under different data frameworks.*" (e.g., how to balance obligations related to data privacy, AML/CFT, and other regulatory requirements)

(iii) "*Challenges arising from restrictions on the flow of data across borders.*" (e.g., measures that require data to be stored or processed in-country (data localization))

(iv) "*Frictions may also make innovating in the payment system more challenging. The lack of a global approach to the many different frameworks acts as a barrier to innovations that could help improve the efficiency of the payments system.*" (e.g., full payment traceability, one-time customer verification, and prepayment validation)

Drawing on the findings of the stocktake, in July 2024 the FSB drafted proposed recommendations and published them for public consultation;[8] the feedback[9] received is reflected in the Final Report.

3. Overview of the Final Report

Discussions in the Final Report focus on these identified frictions resulting from the "**data frameworks**," which are defined in the Final Report as "*a range of laws, rules and regulatory requirements for collecting, storing, and managing data*." Although the Final Report acknowledges that a certain degree of friction may be unavoidable, its 12 recommendations are aimed at mitigating unnecessary friction without compromising on the objectives underlying AML/CFT, sanctions, and data protection and privacy rules. Recommendation 1 relates to establishment of the Forum (*see* section 1 above), which is charged with coordinating and reporting on

5 https://www.fsb.org/2020/10/enhancing-cross-border-payments-stage-3-roadmap/

6 https://www.fsb.org/2023/02/g20-roadmap-for-enhancing-cross-border-payments-priority-actions-for-achieving-the-g20-targets/

7 https://www.fsb.org/2023/09/stocktake-of-international-data-standards-relevant-to-cross-border-payments/

8 https://www.fsb.org/2024/07/recommendations-to-promote-alignment-and-interoperability-across-data-frameworks-related-to-cross-border-payments-consultation-report/

9 The public responses and an overview thereof are available on the following websites:
https://www.fsb.org/2024/09/public-responses-to-consultation-on-recommendations-to-promote-alignment-and-interoperability-across-data-frameworks-related-to-cross-border-payments/
https://www.fsb.org/2024/12/recommendations-to-promote-alignment-and-interoperability-across-data-frameworks-related-to-cross-border-payments-overview-of-responses-to-consultation/

implementation of the other recommendations and identifying emerging issues that should be addressed, while the other recommendations (No. 2 through 12) are largely divided into the following four categories.

<Four Broad Categories>
(1) Addressing uncertainty about how to balance regulatory and supervisory obligations (No. 2)
(2) Promoting the alignment and interoperability of regulatory and data requirements related to cross-border payments (No. 3 through No. 8)
(3) Mitigating restrictions on the flow of data related to payments across borders (No. 9 through No. 11)
(4) Reducing barriers to innovation (No. 12)

In the subsequent paragraphs, we will introduce some of the recommendations in the Final Report which we think merit attention.

(1) Addressing uncertainty about how to balance regulatory and supervisory obligations

Recommendation 2: Relevant authorities, international organisations and standard-setting bodies should work within the Forum to identify, map and address possible areas of divergence and inconsistency in data frameworks relevant to cross-border payments and facilitate discussion among authorities on how to make these requirements more consistent while meeting AML/CFT and sanctions objectives, preventing fraud, and protecting data privacy objectives. Forum participants should take into consideration successful examples from other areas. The Forum should also consider a process to ensure that new potentially emerging divergences and inconsistencies are addressed as they arise.

The Final Report argues that "*[c]hallenges arising from implementation of different data frameworks, including possibly conflicting requirements, are not unique to cross-border payments*" and that "*[i]dentifying successful use cases and learning from these experiences may enable them to be replicated as solutions in cross-border payments at a global level*." The Final Report suggests looking into precedents in certain sectors,[10] in which the aforementioned challenges were successfully addressed and the requirements in data frameworks were made more consistent. In addition, the Final Report underlines the importance of a comprehensive mapping exercise as a means to better understand the extent of divergence across approaches to data frameworks.

[10] The Final Report refers to international civil aviation, clinical trials, and health research, along with the Joint Chiefs of Global Tax Enforcement (the J5), Single Euro Payments Area (SEPA) and Buna, a cross-border and multi-currency payment system founded by the Arab Monetary Fund, as similar examples in the payment area.

(2) Promoting the alignment and interoperability[11] of regulatory and data requirements related to cross-border payments

Recommendation 3: National authorities should encourage the adoption by market participants, including central banks and payment system operators, of the Bank for International Settlements' Committee on Payments and Market Infrastructure (CPMI)'s harmonised ISO 20022 data requirements for cross-border payments.

"**Data requirements**" generally refers to the specifications for the content and format of data elements that must be collected, stored, transmitted, or disclosed in order to fulfill purposes such as regulatory compliance and interoperability. The ISO 20022 is an international standard for electronic data interchange between financial institutions, the adoption of which is growing worldwide and provides "*an opportunity to achieve greater interoperability of messaging standards.*" Meanwhile, the Final Report refers to the problem of "*limited, incomplete, or inconsistent implementation of the standard in different jurisdictions and regions*," and draws attention to the inconsistencies among the respective jurisdictions stemming from the latitude of interpretation and application embedded in international standards, by stating that "*how the standard is used in practice could vary considerably, and frictions in the processing of cross-border payments could continue to persist even as ISO 20022 is adopted.*"

Implementation of this recommendation already is under way, as CPMI set out the harmonized ISO 20022 requirements for use in cross-border payments[12] in October 2023 and has been working with market practice groups (e.g., HVPS+, CBPR+) to align their usage guidelines with the CPMI data requirements.[13]

Recommendation 4: To avoid the inconsistent application of cross-border payment-related data requirements for AML/CFT compliance, national authorities should implement FATF Recommendation 16 and provide clear and accessible guidance on any additional data required to comply with local AML/CFT regulations. They should also use applicable global data standards, where available.

FATF Recommendation 16 is a set of international standards (Travel Rules) established by the Financial Action Task Force (FATF) which originally were intended to ensure the transparency of information about remitters and beneficiaries, and which currently, as amended, also is applicable to crypto-asset transactions. The Final Report clarifies that the aim of this recommendation is: "*(i) to reduce fragmentation in data requirements for AML/CFT*

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11 "**Interoperability**" is a broad term, and is not defined in the Final Report or the roadmap. Since the Final Report features interoperability "*across data frameworks*" and "*of regulatory and data requirements*," we assume that the term should be read as referring to "*the capability to easily exchange business information while using different message standards*" (as defined by Swift Standard Teams in the following book) or different data frameworks:
The Swift Standard Teams (2022): *ISO 20022 For Dummies*, 6th limited edition, John Wiley & Sons, Inc. (available upon request on the Swift's website: https://www.swift.com/swift-resource/184556/download)

12 https://www.bis.org/cpmi/publ/d218.htm

13 In the payments sector, the Payments Market Practice Group (PMPG) provides a global forum to drive better market practices, coordinating the activities of High Value Payments Systems Plus (HVPS+) and Cross-Border Payments and Reporting Plus (CBPR+). More details of these market practice groups are available on the following Swift websites:
https://www.swift.com/standards/market-practice/payments-market-practice-group
https://www.swift.com/standards/market-practice/high-value-payments-systems-plus
https://www.swift.com/standards/iso-20022/iso-20022-financial-institutions-focus-payments-instructions

compliance in payments through the implementation of a global standard, which is set out in FATF Recommendation 16 ..." and "*(ii) to encourage the provision of clear and accessible guidance about the application of any additional data requirements, beyond the minimum set out in FATF Recommendation 16 needed to address specific risks.*"

To supplement item (ii) above, as acknowledged in a FATF stocktake,[14] some differences in AML/CFT requirements (Note: these requirements are established by each jurisdiction, in the form of domestic laws, mandatory guidelines, etc.) might be necessary or justified based on different underlying risks in various jurisdictions, and the Final Report admits that domestic regulators may choose to introduce bespoke data requirements to address specific risks. Nonetheless, authorities should "*seek to make these requirements easy to access and understand so that all financial institutions can easily comply*," and "*us[e] applicable global data standards for any additional optional data*" if any. This approach has the characteristic of allowing domestic regulators to reflect each country's circumstances and enhance data requirements, while also ensuring transparency and an easy-to-follow regulatory structure.

To date, the revision of FATF Recommendation 16, which is an update to ensure technology-neutrality and the principle of "same activity, same risk, same rules" in the wake of the diversification and complexity of payment methods, has yet to be finalized, as the draft of revised FATF Recommendation 16 is subject to a second round of public consultations[15] (as of March 31, 2025).

Recommendation 6: National authorities should support the enhanced use of standardised global identifiers, such as the Legal Entity Identifier (LEI), including by taking steps to emphasise that the use of standardised global identifiers in cross-border payments is best practice.

Adoption of standardized global identifiers, such as the LEI and the Business Identifier Code (BIC), has clear links with the objectives outlined in Recommendations 3 through 5 (standardizing sanction lists), since it is envisioned as a way to improve the consistency and usability of message data and to facilitate more efficient and accurate implementation of AML/CFT controls. The Final Report appears to back the use of the LEI, arguing that "*[t]he LEI may offer advantages as it is not linked to a specific messaging network and is available to all corporate and legal entities*."

Although some may counter-argue that *a number of sanctions targets may not be eligible for an LEI, as they are not corporate or legal entities, and even corporate and legal entities would not necessarily register for LEI proactively*, the Final Report buttresses the argument through the LEI's possible contribution to reducing the number of false positives, which itself is one of the suspected causes of the low speed and high costs of cross-border payments.[16]

14 https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Cross-border-payments.html

15 The second round of public consultation will be opened by April 18, 2025. https://www.fatf-gafi.org/en/publications/Fatfrecommendations/R16-public-consultation-February-2025.html

16 The status of progress toward implementation of the LEI is publicized in the following FSB report: https://www.fsb.org/2024/10/implementation-of-the-legal-entity-identifier-progress-report/

Recommendation 7: Building on its ongoing evidence-based and multi-stakeholder work on cross-border data flows, the OECD, together with data privacy and protection authorities and relevant cross-border payments stakeholders, should explore different options to enable faster, less costly, more transparent and more accessible cross-border payment-related data flows while ensuring high levels of privacy protection.
Recommendation 8: Building on the work outlined in Recommendation 7, relevant authorities should adopt and enforce consistent standards in domestic privacy and data protection regimes applicable to payment processing and identify appropriate cross-border data transfer mechanisms.

These two recommendations concern data protection/privacy issues, or, more specifically, cross-border data transfers. According to the 2023 Global Privacy Assembly (GPA) Census,[17] most jurisdictions have laws restricting transfers of personal information across borders, and key discussions in the field of data protection and privacy have centered on tools and mechanisms that enable cross-border data transfers, such as equivalence/adequacy decisions, standard contractual clauses, and binding corporate rules.[18] The same is true here: along with recommending their implementation, the Final Report refers to the work on clarification or convergence of these mechanisms carried out by the GPA Global Frameworks and Standards Working Group and the OECD. It also expounds on the Data Free Flow with Trust (DFFT) Experts Community. DFFT was introduced by Japan at the World Economic Forum Annual Meeting in Davos in 2019, and is a concept designed "*to promote the free flow of data while ensuring trust in privacy, security, and intellectual property rights.*"[19] While the DFFT policy agenda has not focused specifically on data flows relating to cross-border payments, a dedicated working group has been launched within the DFFT Experts Community, and has been looking into this specific issue.

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17 https://globalprivacyassembly.org/the-assembly-and-executive-committee/gpa-census/

18 In Japan, the Japanese Bankers Association ("**JBA**") opines that it is necessary for banks in Japan to rely on "consent" from the data subject (*i.e.*, bank customer) as a legal basis for the transfer of personal data accompanying foreign remittances (transfers of funds from a bank in Japan to a beneficiary account at a bank in a foreign country). According to Article 28, paragraph 2 of the Act on the Protection of Personal Information ("**Act**"), prior to obtaining consent, those who rely on "consent from the data subject" must provide the data subject with certain kinds of information, including information about the personal information protection systems in the foreign countries to which personal data is to be transferred. Considering that it is impossible to identify the name and location of correspondent bank(s) before the actual remittance (*i.e.*, when a bank accepts a customer request for remittance), the JBA states that "customers who ask for foreign remittance should note that banks cannot identify the existence and the name (if any) of corresponding bank(s) at the time of your request." In practice, when complying with the information obligation, many banks refer to a website of the JBA, on which the JBA refers to the published results of a survey conducted by Personal Information Protection Commission ("**PPC**") on the data protection/privacy legislation in some jurisdictions, and also publishes a list of whether or not each jurisdiction has adopted data protection/privacy legislation based on the mapping of the UN Conference on Trade and Development (UNCTAD). The JBA's opinion (in Japanese only), the survey results from the PPC (in Japanese only), and the UNCTAD's mapping are available on the following websites:
https://www.zenginkyo.or.jp/article/tag-f/17491/
https://www.ppc.go.jp/personalinfo/legal/kaiseihogohou/#gaikoku
https://unctad.org/page/data-protection-and-privacy-legislation-worldwide
A triennial review of the Act is now under way, and it is proposed (*see* the handout No.1-1 of the 316th PPC meeting "*View on the institutional issues of Act on the Protection of Personal Information (draft)*", Section I, 1(2), published on the following website, in Japanese only) that when financial institutions engage in foreign remittances and transfer customer data to a beneficiary financial institution, the transferring financial institutions should be exempt from obtaining consent from the data subject, on the basis that the data transfer is necessary to deliver a contractual service, an approach much more aligned with that of other countries.
https://www.ppc.go.jp/aboutus/minutes/2024/20250305/

19 https://www.oecd.org/en/about/programmes/data-free-flow-with-trust.html

(3) Mitigating restrictions on the flow of data related to payments across borders

This section revolves around the policy of data localization and data mirroring. Although the Final Report does not provide a precise definition, "**data localization**" generally refers to a policy pursuant to which the transfer of data across borders is restricted in some manner; according to the September 2023 stocktake report,[20] this includes:

- conditional limitations on data export (e.g., for personal data);
- outright prohibitions on data export (or where conditional approvals for export are very challenging to obtain); and
- Requirements for copying data locally ("**data mirroring**") or local processing requirements

The Final Report enumerates some differing public policy objectives that may drive data localization and data mirroring: building local operational resilience in data systems, protecting against cyber security threats, strengthening customers' confidence in data storage security in the national payment system and ensuring access to data by law enforcement and supervisory authorities which otherwise might not have access to the relevant data. However, as the Final Report clearly states, data localization and data mirroring may cause delays in, or even stop, cross-border payments—— "*sometimes in ways that would be in conflict with their intended purposes*," as described in the stocktake report. These issues may include:

(i) Interrupting efficient and resilient data management, creating a bottleneck

"*... these restrictions can limit the internal sharing or aggregation of data ... [, which makes] it more difficult to assess and manage risk [effectively] on an enterprise-wide basis ... In addition, data localisation policies can increase risks of incomplete data, leading to transaction fails that disrupt STP*[21]*. Infrastructure and personnel may need to be duplicated in individual jurisdictions, creating fragmentation and adding complexity, multiplying opportunities for error and creating new vulnerabilities to cyber incidents. ... [T]he ability to transfer data to reserve capacity in another geolocation (e.g. in the event of a cyber attack) is lost. This may also degrade the security of the data and the global resilience of the data systems."*

(ii) Competition-restrictive ramifications

"There may also be a loss of economies of scale as more data centres must be established and maintained [Note: instead of aggregating data in a single data center]. As a result, firms involved in cross-border payments face increased costs ... [, which] may affect the price of cross-border payments ... [It] may also compel some cross-border market participants to leave certain markets, or act as a barrier to entry for smaller players, reducing competition in cross-border payments and potentially affecting availability and access to financial services".

To "*mitigate these unintended consequences of restrictive policies on data storage and transfer while avoiding compromising on the underlying objectives of some data localisation policies, such as improving operational resilience and the effectiveness of supervision and law enforcement*," the Final Report puts forward three recommendations (No. 9 through No. 11). Among them, Recommendation 10 states:

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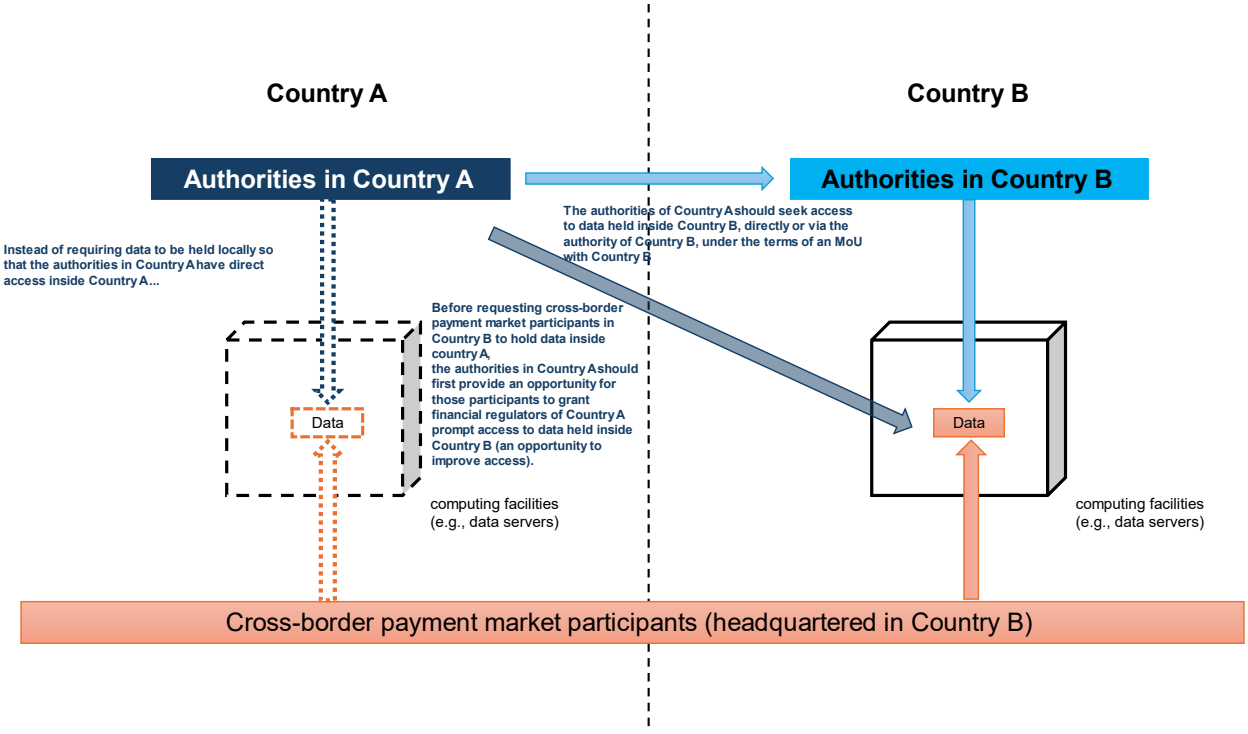
20 *See* footnote No.7

21 "Straight Through Processing (**STP**)" is defined in the Glossary of the CPMI (available below) as "*[t]he automated end-to-end processing of trades and/or payment transfers, including the automated completion of confirmation, matching, generation, clearing and settlement of instructions, without the need for re-keying or reformatting data*".
https://www.bis.org/cpmi/publ/d00b.htm?m=114&selection=149

Recommendation 10: National authorities should establish clear and transparent mechanisms to allow cross-border payments market participants to share data with foreign regulatory and supervisory authorities, as appropriate. Cross-border payments market participants should ensure relevant regulatory and supervisory authorities have full and timely access to data in accordance with their respective mandates.

As background to the implementation of data localization, it is argued that it is necessary to maintain access to private sector data for regulatory and law enforcement activities. In connection with this, the FSB recommends an ingenious but realistic solution. With reference to the following diagram, supplementary explanations on Recommendation 10 in the Final Report state that: "*[i]nstead of requiring data to be held locally [note: for example, inside country A], authorities [note: for example, of country A] should establish requirements for cross-border payments market participants to allow access to payments data for regulatory and supervisory activities. These should include legal arrangements that facilitate access across borders, either directly or via local authorities [note: for example, of country B], e.g. under the terms of a memorandum of understanding. National authorities [note: for example of country A] should provide an opportunity for cross-border payments market participants to grant prompt access to payments data requested by financial regulators [note: for example, of country A] before being required to use local [note: for example, inside country A] computing facilities*".[22] Meanwhile, the Final Report also encourages authorities to take into account approaches to **government access**, such as those embodied in the OECD Declaration on Government Access to Personal Data Held by Private Sector Entities.[23]

[Diagram](created by the authors)



[22] This approach is not without precedent. For example, although the Final Report does not refer to it and the September 2023 stocktake report mentions it only by name, *see* Article 13, paragraphs 2 and 3 of the US-Japan Digital Trade Agreement (available below). https://www.mofa.go.jp/files/100096010.pdf

[23] https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0487

(4) Reducing barriers to innovation

Recommendation 12: National authorities and international standard setters should promote innovation that may offer solutions to data frictions in cross-border payments by taking steps to foster public-private sector partnerships, facilitate dialogue with innovators, create regulatory frameworks that support innovation, and share best practices with international counterparts.

Realizing that promising innovations could help address frictions in the payments system arising from data frameworks, the Final Report notes that cross-border regulatory coordination, mechanisms to support market participants in the transition from sandboxes or tech sprints to operating "live in the market," and better understanding of new technologies among stakeholders are critical to supporting innovation.

4. What are the next steps and how do they affect Japan?

According to the 2024 progress report on the G20 roadmap,[24] adaptation of standards or guidance by standard setting bodies, in line with the FSB recommendations, is scheduled to take place starting in 2025, followed by national authorities' examination of the changes to be made to their frameworks in 2026. At this time (March 31, 2025), the amendment to the Act referred to in footnote 18 is being considered as an attempt to resolve an individual issue; however, it might take some time to see overarching changes to legal/regulatory data frameworks in the field of cross-border payments that reflect the directions outlined in the Final Report.
That said, and despite the growing uncertainties in U.S. policy arising after President Trump took office in January 2025, we believe it vital for other jurisdictions, including Japan, to continue their efforts toward greater alignment and interoperability of data frameworks, to enhance the efficiency and security of cross-border payments in line with the FSB's recommendations, while also monitoring developments in relevant U.S. policies.

[End]

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[24] https://www.fsb.org/uploads/P211024-1.pdf