May 3, 2024

Ms. Violaine Clerc
Executive Secretary
Financial Action Task Force
2 Rue André Pascal 75116
Paris, France

Submitted electronically

Subject: Comments of IIF on the proposed revisions to Rec. 16/INR. 16

Dear Ms. Clerc:

The Institute of International Finance (**IIF**)[1] welcomes the opportunity to comment on the Financial Action Task Force's (**FATF's**) Public Consultation on Recommendation 16 on Payment Transparency (**Rec. 16**),[2] which seeks to ensure that standards for payments remain relevant in a rapidly evolving global payments ecosystem, with new payment services providers, emerging payment technologies, and updated payment business models.

The global payments ecosystem has changed dramatically, of course, from when cross-border payments were mainly effected by banks or occurred through cash. Given there are now many more actors in a far more complex payment value chain, the IIF wholeheartedly supports the FATF's commitments to transparency, being technology-neutral and to the principle of creating a level playing field through 'same activity, same risk, same rules.'

Rec. 16 is centered around an important objective – "preventing terrorists and other criminals from having unfettered access to payments or value transfers for moving their funds, and for detecting such misuse when it occurs." This objective is critical in ensuring that basic information on originators and beneficiaries of payments or value transfers is immediately available: to appropriate law enforcement and/or prosecutorial authorities; to financial intelligence units; and for ordering, intermediary and beneficiary financial institutions to facilitate the identification and reporting of suspicious transactions, and to implement the requirements to take freezing action and comply with prohibitions from conducting transactions with designated persons and entities.

These are important objectives, and we appreciate the FATF's outreach to interested stakeholders in this important area. The IIF has also long supported the organization's wider work on mitigating and preventing the effects of financial crime globally. We thank the FATF for undertaking this assessment and for inviting us to contribute. As you may be aware, the IIF and its members worked closely with the FATF to refine its proposals, both before and after the public consultation was launched on February 26, 2024, including through the IIF's participation in the FATF's recent annual Private Sector Consultative Forum (**PSCF**) held in Vienna on April 4 and 5, 2024.

[1] The IIF is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial, and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, professional services firms, exchanges, sovereign wealth funds, hedge funds, central banks, and development banks.
[2] FATF 2024. "Public Consultation on Recommendation 16 on Payment Transparency" Feb. 26, 2024.

This current public consultation on Rec. 16 on Payment Transparency seeks to clarify the roles and responsibilities of different players involved in the payment chain and improving the content and quality of basic originator and beneficiary information contained in the payment messages and revisions on requirements for cards. Given this wide-ranging scope and possible impacts across the payment system, it has elicited a substantial response among our IIF members, including card issuers and banks, many of which are submitting their own responses to the FATF.

Importantly, the complex technical features of card payments, the significant implications of the proposals for a wide range of stakeholders and the already evident significant concerns that some of the proposals have raised, all merit that the FATF take a careful and considered approach in finalizing its proposals following an extended timeline. Similarly, it is essential that the FATF continue engaging in dialogue with all stakeholders as it develops further proposals for consideration.

Given the impact that these changes would have on issuers, banks, other payment service providers and their customers, we would encourage FATF to adhere to three principles as it moves forward:

1. clarity and alignment on the risks to be addressed;
2. proportionality of mitigation measures to those risks; and
3. minimization of unintended consequences.

We also encourage the FATF, and its respective member jurisdictions, to conduct a robust assessment of the risks introduced by newer entrants in today's payment chain and to consider which tools beyond Rec. 16 would be most appropriate to address these risks. As the review of Rec. 16 can impose significant burdens for stakeholders across the payments ecosystem without clearly furthering the objectives of public sector authorities, we call on all relevant stakeholders to engage on this issue with the FATF and its Financial Intelligence Unit members.

Given the technical nature of the revisions, and because they are part of an ongoing dialogue, the IIF and our members would like to draw your attention to a number of over-arching considerations, which we ask are taken into account in considering individual responses to the detailed consultation questions.

1. Same activity, same risk, same rules

We fully support the FATF's stated aims of ensuring that the FATF Standards remain technology neutral and following the principle of "same activity, same risk, same rules." We would add the nuance that understanding "same rules" as meaning "same regulatory outcome" can be more useful, highlighting that the same regulatory outcome may be able to be achieved by different rules while remaining technology neutral.

2. Cost of the proposals; alignment with the G20 objectives

This project is also a part of the G20 Priority Action Plan[3] to progress work on making cross-border payments faster, cheaper, more transparent, and more inclusive, while maintaining their safety and security. This G20 and Financial Stability Board (FSB) efforts should help in achieving greater transparency and more efficient and effective compliance processes by financial institutions.

FATF should not underestimate the cost of its proposals, which have the potential to very significantly increase the cost of cross-border payments and value transfers, directly contrary to the G20 regulatory objectives.

Compliance with the new requirements would require a significant, costly and time consuming technological and compliance transformation for card networks and network participants, without clear benefits for combating illicit financial activity. Such expenses may undermine industry efforts to help drive financial inclusion and reduce costs for end users.

[3] FSB 2023. "G20 Roadmap for Enhancing Cross-border Payments: Priority actions for achieving the G20 targets" Feb. 23, 2023.

As it relates to the card exemption, while we assess that Option 1 will itself be disproportionately costly in certain areas relative to the extent to which it can further regulatory objectives, Option 2 would impose very significant costs on the entire payments ecosystem (including issuers, acquirers, merchants, and ATM operators) with no clear or proportionate benefits for combating the types of risks that the FATF identified in the public consultation. In addition to pointing out the very significant costs, we also do not support the FATF's proposal under Option 2 relating to the lifting of exemptions for the purchase of cash and cash equivalents.

Of the options presented for the originator/beneficiary mandatory information, Option 1 again presents lower costs compared to Option 2, however, both are suboptimal, for similar reasons.

We strongly encourage the FATF to take the necessary time for this project and to conduct a proper assessment of cross-border payment flows to identify risk vectors and to develop revisions that are targeted in nature and seek to minimize unintended consequences.

Also, its proposals seem to conflate transparency to regulators and financial institutions with transparency to users, which is the type of transparency that is relevant to the G20 objectives and the KPIs and targets that the Financial Stability Board has laid out. Transparency in the cross-border payments roadmap is further defined in the FSB's work on targets and key performance indicators as concerning transparency of total transaction cost[4], the expected time to deliver funds, tracking of payment status, and terms of service.

3. *Implementation timing*

In terms of timing, given the mandatory roll-out of ISO 20022 standards by November 2025, as well as the demands that will be placed on the broader ecosystem in the interim, to ensure that scarce expertise is focused on a properly sequenced timeline of work, we would advocate for implementation of any finalized revisions be postponed until well after the ISO 20022 deadline.

4. *Revisiting the payment card exemption*

When it comes to the differences between credit/debit cards and stored value cards, we would argue there are not the "same risks" so as to justify the "same rules."

While we understand why FATF is considering two options in regard to the card exemption, **we consider both Option 1 and Option 2 to be disproportionately costly relative to the regulatory objectives that FATF is seeking to achieve**.

To begin with, FATF has presented (in our view) insufficient evidence as to the scale of the problem sought to be addressed. It also has conflated issues relating to stored value cards and gift cards with true credit and debit cards.

Stored-value cards are typically issued by institutions that are much more lightly regulated and, in some jurisdictions, may not be regulated as financial institutions at all for many purposes other than for anti-money laundering and countering the financing of terrorism (**AML/CFT**). When it comes to AML/CFT rules, all financial institutions should be subject to the same regulations.

A stored value card is transferable and, in the case of single-use cards such as gift cards, does not indicate an ongoing account-keeping relationship. Also, in many jurisdictions, stored value cards can be issued by non-banks, and in some jurisdictions, by institutions regulated only for AML/CFT purposes and not subject to other prudential or insurance requirements. Some stored value cards may be regulated as gambling products.

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[4] Total transaction cost is defined as showing all relevant charges, including sending and receiving fees including those of any intermediaries, FX rate and currency conversion charges. See FSB (2023), [Annual Progress Report on Meeting the Targets for Cross-Border Payments: 2023 Report on Key Performance Indicators (fsb.org)]

These overlapping differences create a range of risk differences in different jurisdictions and according to the type of card.

For all credit and debit card transactions, the transaction identifier, merchant name and card number together are sufficient for the card scheme operator to fully identify the issuing and acquiring financial institution. Where necessary, the card scheme operator can provide that information to relevant authorities and financial institutions on request.

5. Aligning with important data standards

We would encourage FATF to further consider aligning with ISO 20022, ISO 8583, and other important data standards in the payments space, where practicable.

For example, to the extent that FATF considers it is necessary to mandate that the name and address of originator and beneficiary accompany the payment message, any departure from the harmonized data set and data elements definitions that have recently been settled on by the Committee on Payments and Market Infrastructures (**CPMI**) in its work on ISO 20022 implementation in the context of cross-border payments needs to be more clearly justified.[5]

We would also note the important role that will continue to be played by the quite different ISO 8583 data standard in the card payments space.

We understand that FATF staff are aware of this importance and would ask that its finalized Standards do not cut across existing data standards that work well.

6. Privacy and information risks to consumers and corporate clients arising from the proposals

We believe that the best way to address AML/CFT issues is to use the current frameworks that are already in place, including for sanctions.

Increasing the data accompanying each transfer, including a substantial amount of personal customer data or commercially sensitive corporate client data, could lead to excessive data intrusion, creating heightened risks of data theft and leaks and a greater attack surface. Consumer data should only be used for the purpose for which it is collected, governed through responsible consumer protection, data privacy and protection frameworks. The data needed to effect payment is clear, so the benefit of including additional information needs to be clearly supported by cogent evidence.

There are also related concerns regarding impersonation, data privacy, and protection, at a time when payment systems are under increasing stress from heightened fraud and scam risks.

Adding to the burden of information being transferred across borders seems to go against the flow of digital trust and digital identity initiatives where verifiable credentials are being increasingly shared in place of sharing the underlying raw data.

7. A robust risk assessment

We also encourage the FATF, and its respective member jurisdictions, to conduct a robust assessment of the risks, including those introduced by newer entrants, in today's payment chain and to consider which tools beyond Rec. 16 would be most appropriate for addressing these risks.

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[5] CPMI (2023), Harmonised ISO 20022 data requirements for enhancing cross-border payments – final report, October.

We understand there will be further engagement with the private sector after the close of the comment period, including through an outreach session for Rec. 16 revisions in Washington DC on May 28 and 29. We look forward to participating in this session and we welcome FATF's commitment to further consultation.

The IIF and its members stand ready to engage in additional discussions and consultations on these topics, or to clarify any aspect of our submission. We thank you again for the opportunity to contribute to this important consultation. If you have any questions or would like to discuss our comments in greater detail, please do not hesitate to contact the undersigned, as well as Martin Boer at mboer@iif.com.

Yours sincerely,

Andrés Portilla	**Jessica Renier**
Managing Director, Regulatory Affairs	Managing Director, Digital Finance