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Submitted via email

CPMI Secretariat

cpmi@bis.org

Subject: PvP consultation

Re: Request for comment on facilitating increased adoption of payment versus payment

IZZI, Inc appreciates the opportunity to submit this response to the request by the Committee on Payments and Market Infrastructures (CPMI) for comments on the July 2022 consultative report on *Facilitating increased adoption of payment versus payment (PvP)*. As described below, these comments focus specifically on facilitating increased adoption of PvP for settling wholesale and retail cross-currency payments, including remittances, in direct support of the overall G20 roadmap for enhancing cross-border payments.

I. BACKGROUND

IZZI, Inc has been established to advance *Project IZZI: Building global payment infrastructure to pay anyone, anywhere, anytime, instantly, in any currency.*

Vision: The *Project IZZI* vision is a safe, efficient, and truly global payment system that delivers instant, seamless, 24x7 account-to-account payments domestically, across borders, and across currencies.

Approach: *Project IZZI* will achieve this vision and meet the G20 call for faster, cheaper, more transparent, and more inclusive cross-border payments, including remittances, by leveraging the time-tested strengths of the international banking system.

Solution: The *Project IZZI* solution is patented¹ interbank payment infrastructure with four key elements:

- ***A novel form of commercial bank money*** matched by central bank balances that is a demand deposit liability of any authorized deposit-taking bank or nonbank payment service provider (PSP).
- ***Real-time payment processing*** by industry-run payment systems that deliver instant, 24x7 single-currency payments and integrated pricing, funding, and settlement of cross-currency payments.

¹ U.S. Patent No. 11,354,662.

- **Streamlined KYC/AML/CFT compliance** through a minimum identity standard for each currency's payment system and centralized enforcement of all system-wide and bank/PSP-specific rules.
- **Easy to access state-of-the-art technology** that integrates with existing bank/PSP internal systems, including batch platforms, through simple APIs.

The *IZZI* interbank payment infrastructure is designed to yield significant benefits from multiple perspectives:

- **Public interest benefits** include the support of macroeconomic stability, financial system stability, transparency, accessibility, ubiquity, and financial inclusion.
- **Regulatory benefits** include clarity and acceptability under existing and well-understood supervisory, oversight, and regulatory regimes for monetary policy implementation, payment system operations, international cooperation, and privacy and anonymity requirements.
- **Individual bank benefits** include improved competitiveness, lower costs, and the confidence to grow their payment franchises irrespective of the uncertain future of DeFi, cryptocurrencies, stablecoins, central bank digital currencies (CBDCs) and other proposed payment arrangements.
- **Nonbank PSP benefits** include direct access, improved services, and the ability to introduce new services that are impractical within the limitations of today's interbank payment infrastructure.

Further details regarding *Project IZZI* and the patented *IZZI* interbank payment infrastructure are provided in the accompanying *Project IZZI* white paper and at www.izzi.global.

II. RESPONSE TO THE CPMI REQUEST FOR COMMENT

A. Overview

The proposals identified and analyzed by the CPMI demonstrate that the private sector is fully capable of delivering real-time, 24x7, cross-border, cross-currency payments at real-time competitive exchange rates with end-to-end PVP protection.

Furthermore, the proposals demonstrate that the private sector can deliver such payments without any further expansion of access to central bank accounts, without any further expansion of central bank RTGS operating hours, without the introduction of any new central bank liquidity bridges, and without any changes to existing regulatory, supervisory, or oversight frameworks for domestic and cross-border payment systems.

Accordingly, as part of Action 3 of Building Block 9 and as part of the broader G20 payments program, the CPMI and other relevant bodies now have a solid, market-based foundation for promoting rapid action by industry groups to select, to fund, and to implement the most feasible proposals for enhancing cross-border payments by 2027, as called for in the G20 roadmap.

B. Replies to specific questions

1. *Do you agree with the analysis of the causes of non-PvP settlement?*

Summary: On the one hand, the analysis of the causes of non-PvP settlement is comprehensive with respect to the settlement of bilateral foreign exchange (FX) transactions. On the other hand, the analysis is silent on the fundamental cause of non-PvP settlement with respect to cross-currency payments, namely the lack of an available, fit-for-purpose PvP mechanism for settling cross-currency payments.

Elaboration: The consultation report duly notes that PvP is a settlement mechanism that ensures that the final transfer of a payment in one currency occurs if and only if the final transfer of a payment in another currency or currencies takes place.

Although this definition is accurate at a high level, it is important to note that the specific functional requirements of a PvP mechanism for settling bilateral FX transactions are quite different than the specific functional requirements of a PvP mechanism for settling cross-currency payments. PvP for settling bilateral FX transactions requires a mechanism that creates the conditional final transfer of two separate payments involving two parties (i.e., two FX traders and/or their respective payment agents), whereas PvP for settling cross-currency payments requires a mechanism that creates the conditional final transfer of two separate payments involving three parties (i.e., the payer, the payee, and a cross-currency provider, and/or their respective payment agents).

For example, PvP for settling a bilateral FX transaction requires a mechanism to ensure that the final transfer of a payment in one currency from Trader A to Trader B occurs if and only if the final transfer of a payment in the agreed counter currency from Trader B to Trader A takes place.

In contrast, PvP for settling a cross-currency payment requires a mechanism to ensure that the final transfer of a payment in one currency from the payer to the cross-currency provider occurs if and only if the final transfer of the payment in the agreed currency from the cross-currency provider to the payee takes place.

The proposed *IZZI* interbank payment infrastructure provides such an end-to-end trilateral PvP mechanism for settling cross-currency payments, both wholesale and retail, including remittances. Furthermore, the proposed *IZZI* infrastructure can settle cross-currency payments with PvP on a 24x7 basis at real-time competitive exchange rates.

The *IZZI* proposal therefore demonstrates that the private sector has at least one way to address the fundamental cause of non-PvP settlement of cross-currency payments. In particular, the *IZZI* infrastructure would provide a fit-for-purpose PvP mechanism that enables payers and payees to make real-time, market-based, cross-currency payments at any time that serves their commercial and operational needs.

2. Do you find that, for your market segments, some causes are more important than others? Please explain.

Summary: Per the response to question 1, the fundamental cause of non-PvP settlement with respect to cross-currency payments involving any pair of currencies is the lack of an available, fit-for-purpose PvP mechanism for settling cross-currency payments.

3. In which currency pairs or products do you find that non-PvP settlement is increasing?

Summary: The lack of an available, fit-for-purpose PvP mechanism for settling cross-currency payments is the fundamental cause of non-PvP settlement of cross-currency payments for all currency pairs.

4. Do you agree with how the proposals for new solutions could increase the adoption of PvP?

Summary: *IZZI* provides a concrete, practical solution for facilitating PvP settlement of cross-currency payments between any pair of currencies and for meeting the G20 payment enhancement targets more broadly.

Elaboration: The *IZZI* solution can create a fit-for-purpose PvP mechanism for cross-currency payments for any pair of currencies. It can also remove all seven fundamental frictions identified by the CPMI that collectively result in the high cost, low speed, limited access, and insufficient transparency of wholesale and retail cross-border payments, including remittances. Furthermore, the private sector can implement the *IZZI* solution quickly, since it does not require any further expansion of access to central bank accounts, or any further expansion of central bank RTGS operating hours, or the introduction of any new central bank liquidity bridges, or any changes to existing regulatory, supervisory, or oversight frameworks for domestic and cross-border payment systems.

5. Do you find that these new solutions, together, if launched successfully, can mitigate FX settlement risk? Please explain.

Summary: Per the response to question 4, the *IZZI* solution demonstrates the feasibility of at least one concrete way that the private sector can quickly implement a fit-for-purpose PvP mechanism that mitigates FX settlement risk in cross-currency payments.

6. Do you agree with the analysis of the barriers to increased adoption of PvP?

Summary: *IZZI* provides a concrete example that there is no inherent barrier for the private sector to implement and to adopt PvP settlement for cross-currency payments between any pair of currencies.

Elaboration: Per the responses to questions 4 and 5, *IZZI* demonstrates that there is at least one solution the private sector can implement without any further expansion of access to central bank accounts, or any further expansion of central bank RTGS operating hours, or the introduction of any new central bank liquidity bridges, or any changes to existing regulatory, supervisory, or oversight frameworks for domestic and cross-border payment systems.

The *IZZI* solution is also not dependent upon any changes to conventions for an international value date (since *IZZI* confirms and settles cross-currency payments on a gross, real-time basis) or upon the alignment of nostro operating hours and processes (since *IZZI* processes and settles cross-border and cross-currency payments 24x7 on behalf of nostros).

Furthermore, the *IZZI* solution overcomes barriers related to the existence of, and the lack of interoperability between, legacy systems and emerging systems by creating a technologically state-of-the-art global payment ecosystem that is globally interoperable by design and that is accessible to individual bank and nonbank PSPs via simple APIs that integrate easily with their existing internal systems, including batch platforms

7. Which barriers do you find most significant, and do you observe any additional barriers that are not identified in the report? Please explain with specific reference to individual barriers.

Summary: For those central banks that do not currently offer individual account holders the ability to open a joint account (or an omnibus account, or a technical account, or any other functionally equivalent account as it may be differently defined at each central bank), it would be helpful for them to consider doing so.

Elaboration: As described in the accompanying *Project IZZI* white paper and at www.izzi.global, the simplest and least expensive way for any currency to implement the *IZZI* solution is upon the foundation of a joint account at the central bank of issue (or an omnibus account, or a technical account, or any other functionally equivalent account as it may be differently defined at each central bank). However, not all central banks currently offer their individual account holders the ability to open such a joint account. Although the use of a joint account is not necessary for any individual currency to adopt the *IZZI* solution, an alternative approach (e.g., through the establishment of a special-purpose trust or settlement bank) could make implementation and ongoing operations of the *IZZI* infrastructure for an individual currency more complex and more expensive than necessary.

8. Do you agree with the possible roles for private and public sector stakeholders in addressing the barriers?

Summary: Per the responses to questions 4, 5, and 6, *IZZI* provides a concrete example that there is no inherent barrier for the private sector to implement and to adopt PVP settlement for cross-currency payments between any pair of currencies. Accordingly, the most important roles for private and public sector stakeholders are to recognize that ongoing “paralysis by analysis” is the greatest barrier to enhancing cross-border payments and that it is now time for industry groups to move forward by selecting, funding, and implementing the most feasible proposals for enhancing cross-border payments by 2027, as called for in the G20 roadmap.

9. Do you find that the private sector could take on other roles in facilitating increased adoption of PvP? Please explain.

Summary: When selecting the most feasible proposals for implementing PvP for cross-currency payments and for enhancing cross-border payments more broadly, industry groups should be encouraged to base their decisions on a thorough and comprehensive evaluation and comparison of how and to what extent each proposed solution under consideration would (a) reduce each of the seven fundamental frictions identified by the CPMI; (b) make cross-border payments -- including remittances -- faster, cheaper, more transparent and more inclusive; and (c) support financial stability and other relevant public interest considerations.

10. How could the public and private sectors work together to take this forward? Please explain and suggest any practical actions that could be taken by existing industry bodies.

Summary: As part of both Action 3 of Building Block 9 and as part of the broader G20 payments program, the CPMI and other relevant bodies could encourage and incentivize industry groups to avoid further “paralysis by analysis” and to move forward by evaluating, selecting, funding, and implementing one or more of the most feasible proposals for enhancing cross-border and cross-currency payments. Furthermore, since the evaluation, comparison, selection, and approval processes of the various proposals will ultimately involve decision-makers in both the public and private sectors, it could be helpful for the relevant parties in all relevant jurisdictions to work together in identifying the full set of factors (e.g., the factors identified in the response to question 9) that should be considered as part of those processes.

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Thank you for your consideration of these comments.

Sincerely,



Lawrence M. Sweet
Founder and CEO
IZZl, Inc