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**In pursuit of better payment system - consultation**

Dear colleagues,

I highly welcome the transparent process of the Federal Reserve Financial Services to consult the public in order to improve the US payment system. The procedure may well serve as a role model for others. It is also in the interest of other central banks around the world that we continuously strive to improve our payment systems, especially the cross-border elements.

I will limit my contribution to the overall basic interests of the Deutsche Bundesbank. I do not write as a participant in the US payment system, but as a central banker working hard to make payments and settlements around the world saver, faster and more efficient.

My comments are mainly related to the issue of cross-border payments, more precisely to question 15: "To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the United States facilitate electrification of business payments and/or cross-border payments?"

First of all, I cannot but agree with your gap analysis (position 5): "In general, cross-border payments from and to the United States are slow, inconvenient, costly, and lack transparency regarding fees and timing."

I would like to underline this gap as a particular important one, because it hampers the economic integration. The attributes stated in the gap analysis – slow, inconvenient, costly, intransparent – constitute together a sizable amount of transaction costs, hard to quantify but significant in their impacts. The main impacts are less integrated financial markets which mean losses in terms of

welfare and at the same time increased risks. The negative impacts on trade in general are equally obvious.

The key to overcome this gap is standardization, mainly of the message standards. The European experience of SEPA, which is going to integrate the markets for retail payments in 32 countries to a large extent, may serve as a practical experience. The basic step for the integration was the acceptance of a common standard, in this case XML-based ISO 20022. This required some changes for financial service industry and for users. However, it may become the standard for other payment services as well. The operators of TARGET2, the European large-value payment system, opted also to allow for the use of the XML-based message standard.

In addition, the adoption of the XML-based ISO 20022 in 32 European countries can be seen as a hitherto unparalleled technical switch in a single industry. It seems that this switch has inspired the respective change in the Japanese retail payment system (2011) and the respective considerations for other large-value payment system, e.g. in Australia.

We are well aware of the fact that correspondence banking in Europe as well as some retail payment applications do still use other standards and will continue to do so for the foreseeable future. However, given the increasing dispersion of the XML-standard we consider a use of that standard in the US cross-border payments a significant step towards faster, safer, more convenient and more transparent payments. This standard may contribute not only to lower the overall transactions costs. Moreover, the standardized message format may facilitate new business opportunities for the banking industry and therefore finally receive wide acceptance.

As central bankers we should aim to foster global economic and financial integration. Talking about cross-border payments we should contribute to make crossing the borders easier. Therefore, we would very much welcome the adoption of XML-based ISO 20022 in your payment system.

Sincerely,  
Jochen Metzger