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Committee on Payments and Market Infrastructure
Bank of International Settlements
Centralbahnplatz 2
4051 Basel
Switzerland

20 January, 2025

Re: Consultation for the Payments Interoperability and Extension Taskforce

Dear Committee and Taskforce Members,

Circle Internet Financial LLC ("Circle") appreciates the opportunity to respond to the industry and external party consultation by the Payments and Interoperability (PIE) Taskforce ("Taskforce") on behalf of the Committee on Payments and Market Infrastructure ("Committee") on enhancing cross-border payments. We applaud the leadership of the Committee and Taskforce — in partnership with other global regulatory bodies — in developing, implementing, and advancing the G20's roadmap to enhance cross-border payments infrastructure.

As a global financial technology company, Circle believes that enhancing the global payments system, including addressing longstanding frictions, is a measure not just of upgrading the existing two-tiered system but of developing smarter means of cross-border connectivity that can offer cheaper, faster, and more equitable access. We believe that digital payments technology that is inherently global offers opportunities to overcome some of the legacy challenges that have disproportionately disfavored emerging and underbanked economies from access to competitive and affordable global payments, particularly at the retail level.

Circle has a keen interest in supporting the Committee's work and in supporting efforts to modernize cross-border payments, including the development of more efficient, transparent, and well-regulated cross-border payments that facilitate capital flows; maintains fair, orderly, and competitive financial access; and protects consumers and the financial system at large. Partnership between industry and the Committee is critical in developing regulation to support these ends, and Circle commends the Committee for its continued engagement with industry.

As a global payments institution, Circle is the sole issuer of USDC, the largest regulated tokenized cash payment stablecoin, and a euro-backed and denominated analog, EURC, which are central components of the tokenized ecosystem that provide fast, affordable, and transparent global payments. USDC has been widely integrated as a settlement option in leading merchant and credit card networks; supports cross-border remittances and humanitarian assistance; and is deployed as a payment option by banks and e-commerce platforms collectively supporting a range of cross-border B2B, B2C, and C2C use cases. While regulatory frameworks continue to develop around the world, Circle holds licenses for e-money issuance and money transmission in a number of financial centers around the world. These include registration as a Digital Asset Service Provider ('Prestataire de Service sur Actifs Numériques') with the French Financial Markets Authority, Electronic Money Institution (EMI) license ('agrément en qualité d'établissement de monnaie électronique) from the Autorité de Contrôle Prudentiel et de Résolution (ACPR) – that allows Circle to issue e-money tokens (EMTs) in compliance with the EU's Markets in Crypto Asset Regulation; a Major Payments Institution license in Singapore; and money transmitter licenses or their equivalent in all U.S. states where required. A full description of Circle's licenses, activities, including discussion of its operational risk management practices, terms of use and legal rights, attestations to the reserves backing its tokenized cash products, and audited financial statements can be found on Circle's website.

Please find below responses to the Committee's consultation questions:

Question 1: Which private sector initiatives or solutions could help to support enhancing cross-border payments?

In the last two decades, private-sector and particularly nonbank payment service providers have emerged as a critical force in addressing the inefficiencies in cross-border payments at the retail and remittance levels. Historically, these enhancements have stemmed from conducting more efficient settlement netting or by using novel credit systems designed to address settlement delays in correspondent banking networks. While these solutions have meaningfully reduced delays, the benefits remain constrained by structural frictions in the wholesale settlement network (e.g. high intermediation) and the sharp decline in correspondent banking relationships during the last decade.[1] While faster payment systems have gained traction in domestic and wholesale markets, their benefits have not substantially extended to cross-border flows, at the retail level, or to under-banked regions, as highlighted in the Financial Stability Board's (FSB) latest annual update.[2]

More recently, the advent of distributed ledger (DLT) and tokenized settlement systems have offered an alternative and inherently global means of settlement, allowing cross-border payments to be processed at speed and scale with the same technical ease as sending a local payment. A cornerstone of this evolution is the advent of regulated payment stablecoins, such as USDC, which are fully fiat-backed payments utilities that provide near-instant, affordable financial access anywhere with an internet connection. As regulatory frameworks governing stablecoin issuance continue to emerge, payment stablecoins – both regulated and unregulated – have demonstrated the ability to scale and process transaction volumes rivalling, if not exceeding, the largest credit card networks, with billions of dollars in cross-border flows being transacted each

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[1] BIS, "New correspondent banking data - the decline continues," accessed 8 Jan. 2025.
[2] FSB, "Annual Progress Report on Meeting the Targets for Cross-Border Payments: 2024 Report on Key Performance Indicators;" 21 October 2024.

month.[3] As a regulated issuer, Circle has processed more than $20 trillion in USDC transaction volume since its creation six years ago and is available in 185 countries, providing merchants, retail users, international organizations, and others near-instant, low-cost cross-border payments. Circle has converted more than $850 billion between fiat and USDC during that time, and has integrated with local institutions in every populated continent to provide local, regulated access to fiat — all in alignment with the G20's goals of fostering faster, cheaper, and more transparent retail payments.[4]

Looking at the wider payments space, stablecoins are seeing significant uptake as global payments firms integrate them into their payments offerings and cross-border treasury management. In October 2024, Stripe, a leading payments firm, announced the acquisition of Bridge, a startup specializing in stablecoin infrastructure with the stated objective of enhancing the efficiency and speed of cross-border transactions. Aerospace firm SpaceX announced in December 2024 that it had integrated stablecoins into its corporate treasury management for its global Starlink product to avoid foreign exchange risk and wire complications. Still other major payments firms have begun issuing their own stablecoin; for instance, PayPal introduced its own U.S. dollar-backed stablecoin in 2023, marking a significant step toward mainstream adoption of digital currencies. These developments highlight a broader trend particularly in the cross-border payments and settlement space of integrating stablecoins into traditional financial services, aiming to provide users with faster and more cost-effective payment options.

Some of the key efficiency gains that regulated stablecoins offer to enhance cross-border payments flows include:

- **Efficiency and Reductions in Foreign Exchange (FX) Settlement Risk**: Stablecoins offer meaningful efficiency gains in FX markets, providing near instant payment vs. payment (PvP) settlement, real-time price discovery, and reduced counterparty risk via smart contracts. By leveraging public blockchains, regulated stablecoins can also facilitate real-time currency conversions at the retail level, something technologically infeasible in the two-tiered system. Settlement risk affects approximately one-third of daily FX turnover, or $2.2 trillion, posing systemic risks to financial stability and increasing the risk premium borne by merchants and retail users in converting cross-border payments to local currency. Established mechanisms for on-chain FX settlements (e.g. between USDC and EURC) use PvP transactions which reduces intermediary costs and enables "always-on" liquidity, including overnight and on weekends and bank holidays. These transactions, available 24/7, have historically carried lower fees and traded consistently within 0.05% of the USD-Euro exchange rate, offering small and medium-sized enterprises (SMEs) and global enterprises a stable, cost-effective alternative to traditional FX processes.[5] Even in highly competitive FX corridors such as USD-EUR, tokenized FX swaps have the potential

[3] Cambridge Centre for Alternative Finance, "Cambridge Digital Money Dashboard," accessed 13 Jan 2025.
[4] Circle, "2025 State of the USDC Economy," 14 Jan. 2025.
[5] Adams, Ladder, Liao, Puth, Wan; "On-Chain Foreign Exchange and Cross-Border Payments;" 24 Jan 2023.

to further reduce costs and settlement time for retail and SME payments. Research has found that such on-chain FX mechanisms allow retail remittance users to avoid the high fees and delays associated with highly intermediated traditional FX markets, reducing remittance costs by up to 80% while providing added transparency and security.[6]

- **Overcome "Last Mile" Problems with Aid and Development Assistance**: The versatility and traceability of stablecoins also make them ideal for delivering development assistance and humanitarian aid to unbanked and under-banked populations. Stablecoins have proven to enhance the speed and accountability of aid disbursement and reduce fraud in largely cash-based pipelines, all while serving populations that may have little to no traditional financial access. Circle has partnered with the United Nations Refugee Agency (UNHCR), International Rescue Committee (IRC), and other NGOs to develop and pilot stablecoin-based assistance programs, for example, delivering humanitarian aid to internally displaced persons in Ukraine;[7] support for frontline healthcare workers in Venezuela;[8] and assistance to financially remote jurisdictions. In addition to speed and cost savings, these programs allow multiple points of beneficiary validation and traceability of USDC following receipt by the beneficiary, while also serving as a safe store-of-value to beneficiaries. For beneficiary institutions and charities, Circle has found that the transaction costs using USDC are reduced from an average of 3% down to 0.3-1.1% per transaction compared with existing payments. In debanked jurisdictions where cash payments dominate, USDC-based transfers have reduced the cross-border payment time for certain aid organizations from one week to one day. Lastly, Circle has piloted low-tech means of funds transfers with UNHCR that allow beneficiaries to access assistance funds without the use of an internet-enabled device, significantly widening the reach of tokenized payments.

- **Reduces Transaction Costs for Remittances**: Payment stablecoins like USDC also offer the potential to meaningfully reduce remittance costs and meet G20 targets for processing payments in less than 1 hour given their always-on, near-instant settlement. Even in highly competitive remittance corridors such as the U.S.-to-EU, Circle has found that the cost of blockchain-based remittances can be far lower than that of existing payment rails and processed in minutes. A $500 remittance from USD to Euro can cost $4.80 (<1%), including FX and transaction fees, roughly half the fees associated with a comparably sized traditional remittance to the Europe/Central Asia region.[9] Use of stablecoins for remittances has likewise seen an uptake over the last five years with

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[6] Ibid, Ladder, Liao, Puth, Wan.

[7] Circle, Stellar, MoneyGram and the UNHCR Convene to advance humanitarian aid, 13 Apr. 2023.

[8] Circle Partners with Bolivarian Republic of Venezuela and Airtm to Deliver Aid to Venezuelans Using USDC, 20 Nov. 2020.

[9] Ibid, FSB annual update, 2024.

exchange platforms in Latin America, reporting 400% increase in remittance volume using USDC since 2021, processing up to $1 billion in remittances via stablecoins.

- **Tracibility and Programmability:** USDC's public blockchain infrastructure provides real-time, end-to-end visibility into transactions, offering improved tools for AML/CFT compliance and ready integration with digital identity and compliance tools. This level of transparency enables better oversight and reduces risks of fraud through the entire payments chain. Likewise, programmability allows for purpose-bound and automated payments, ensuring precise control over fund flows while maintaining traceability. Circle has partnered with humanitarian organizations that offer products such as parametric crop insurance with automated payouts and "smart remittances" that can be disbursed only for specified goods such as medicine.[10] These features support financial inclusion by offering secure, compliant, and transparent access to global payments for unbanked populations while giving remittance senders and humanitarian organizations greater visibility, control, and optionality into their payment flows.

Questions 2 & 3: What frictions or challenges do you think have not been sufficiently dealt with in the G20 cross-border payments programme? What do you see as priorities to achieve safer and more efficient cross-border payments?

While the Committee and Taskforce have taken significant steps to improve efficiency and access to meet G20 targets, cross-border payments data reflects that key challenges and structural limitations continue to have broad impacts on payments, particularly at the retail level. These challenges have been addressed in part through technological upgrades to legacy settlement systems which can be seen in the decreasing costs and settlement time for wholesale payments noted in the latest FSB report. However, at the retail level, increasing cost and receiver-side fees, as well as slow progress increasing speed, reflect structural hurdles that stem from highly-intermediated payment flows on both the sending and receiving side.

Addressing Structural Bottlenecks

As noted above, novel offsetting and credit solutions have marginally enhanced efficiency by payment processors utilizing the correspondent banking network. However, recent FSB data highlights how costs for cross-border transactions continue to exceed the 1% G20 retail target in most categories. Specifically, the FSB's annual update shows that overall costs increased in some regions, with the global average remaining well above the target 3% level even for "savvy consumers" for whom costs exceed the target in roughly 1-in-7 corridors.[11] In particular, receiver-side and forwarded fees can account for up to 1.8-3.4% of the transaction value, according to FSB data, with these costs most pronounced in Latin America and Middle East/North

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[10] For more, see the 2024 Circle Impact Report, 2024.
[11] Ibid, FSB, 2024.

Africa. These elevated costs underscore the structural problem of highly intermediated payment chains. Both the correspondents and downstream processors may add cost — in many cases with oligopolistic pricing due to limited competition — that even when modest, aggregate to reach above-target levels. Nevertheless, 2024 data reflects that nonbank digital remittance pipelines (i.e. mobile money and credit card) offer significant cost savings over bank and cash transfer methods, suggesting that further investment in digitizing cash-based payment flows may bring wider cost reductions. As stablecoins serve as a means of tokenizing cash, further prioritization and exploration of alternative settlement pathways and tokenized payment flows has the potential to foster competition and access to under-banked regions, bolstering fragile corridors and increasing competition for both cheaper and faster payments.

Looking at speed targets, FSB data reflects that prolonged settlement windows persist in highly intermediated flows, complicating the G20 objective of crediting 75% of cross-border payments within T+1. DLT-based settlement systems, even when using comparatively "slower" public blockchain networks, consistently settle transactions on an intra-hour basis with emerging forms settling in seconds, demonstrating the inherent potential to meet or exceed same-day reconciliation targets. Stablecoins likewise can offer near-instant currency conversion, flattening out the payments chain and decreasing settlement risk borne by funds recipients. However, more extensive research is warranted to weigh the facets of DLT network validation structures that most effectively balance transaction throughput and operational costs with interoperability and settlement finality. Projects such as the BIS' Agora hold promise for identifying such solutions and reducing frictions at the wholesale level, but further exploration of retail solutions is needed as many of the wholesale benefits may remain muted due to legacy downstream receiver fees.

Facilitating AML and Identity Verification

Redundancies in know-your-customer (KYC) obligations and operational challenges to sharing identity and customer data pose a significant barrier to cross-border payment access at both the retail and wholesale level while also adding significant financial and time burdens to established pipelines. Technological advancements in digital identity and Travel Rule integration have the potential to significantly enhance the security, efficiency, and scalability of anti-money laundering (AML) controls in cross-border payments while reducing operational redundancies throughout the payment chain. Through their programmability, stablecoin networks can incorporate features such as automated KYC and AML checks, sanctions screening, and transaction monitoring, reducing operational redundancies while enhancing compliance and transaction security. By allowing precise control over fund flows, stablecoins likewise help minimize misuse and establish a more robust framework for audits and regulatory oversight.

We encourage the Committee and Taskforce — in conjunction with the Financial Action Task Force — to prioritize efforts to create the cross-border legal and regulatory frameworks for integrating digital identity solutions as well as increasing legal clarity for cross-border AML reliance between financial institutions. Specifically, we encourage the prioritization of the following areas related to cross-border compliance:

- **Standardization for digital compliance tools**: Advanced digital identity solutions, including decentralized identity systems leveraging blockchain technology, allow for secure and instant transfer and verification of identity information that is readily portable between regulated entities in the transaction chain. Such systems can be used for establishing portable credentials that, for example, affirm "sanctions compliance" or that can be linked to a general/specific sanctions license to minimize correspondent due diligence and related disruptions to often urgently needed humanitarian aid in sanctioned jurisdictions. Standardization of security and data sharing requirements along with multilateral efforts to harmonize legal requirements and liability around Travel Rule implementation would have the potential to significantly streamline compliance at both the retail and wholesale level. Additionally, such tools can make payments more resilient, reducing unnecessary data storage and creating a more auditable path for AML compliance down the payment chain.
- **Enhancing interoperability of AML systems**: Effective and timely Travel Rule implementation depends on interoperability of systems at both the jurisdiction and institution level. There are currently an abundance of solutions for cross-border AML and Travel Rule compliance; however, few are interoperable or work from a common format that can be ported between services. Digital payments institutions often rely on an array of counterparty- or corridor-specific solutions that, at a minimum, add significant costs but may also deter relationships with institutions and in jurisdictions lacking readily accessible solutions. Collaboration between the public and private sectors on minimum standards of interoperability would enhance transparency and incentivize consolidation of tools around existing data formats (e.g. ISO 20022). Given the G20 mandate, the Committee and Taskforce can play a central role in convening public and private stakeholders to begin making inroads on harmonizing such rules and standards.