

ASEAN PAYMENTS POLICY FRAMEWORK¹

FOR CROSS-BORDER REAL TIME RETAIL PAYMENTS WITHIN THE ASEAN REGION

I. Purpose of this Document

This document defines the main concepts and components of the ASEAN Payments Policy Framework governing real time retail payments within the ASEAN region. This document likewise briefly describes the key principles, underlying rationale and objectives of each component, as well as their salient features. Through this document, it is expected that:

- A. A common understanding of objectives, terms, concepts and principles among ASEAN member-states (AMS), participating financial institutions, service providers, operators and other relevant stakeholders will be achieved.
- B. The relevant stakeholders will share inputs and considerations, as well as make appropriate recommendations on the matters set forth in this document. Stakeholders include the AMS (i.e. central bank, monetary authority and other relevant financial industry regulators), financial institutions interested to participate in the real time retail payments within the ASEAN region. The primary regulator of payment systems in each jurisdiction will determine to whom this document will be exposed for comments.

II. Vision for ASEAN payments integration

In response to the increasing globalization of trade and investments as well as the growing tourism and manpower mobility in the ASEAN region, the AMS shall prioritize the establishment of interoperable cross-border real time retail payment systems in the most effective and efficient manner, and commence the operation of these systems not later than 2025.

III. Objectives for cross-border real time retail payments

The objectives towards accomplishment of the vision for ASEAN payments integration specifically geared towards enabling cross-border real time retail payments within the ASEAN region are as follows:

- A. To promote interoperability of retail payment systems within the ASEAN region.
- B. To provide for safe and efficient means of making retail payments across participating AMS. For countries with no real time retail payments, the Framework shall serve as guidance as they move towards enabling real time retail payments within their country and across the ASEAN region.
- C. To ensure that a mechanism is established to effectively manage risks arising from the receipt, processing, clearing and settlement of retail payment transactions among participating AMS.
- D. To ensure that the rights and interests of consumers are safeguarded, and that the interoperable retail payment systems in the ASEAN region are not used to facilitate illegal activities through observance of the respective anti-money laundering/combating the financing of terrorism rules within the ASEAN region.

¹ Revised during the Technical Workshop held 18-19 September 2019

The international principles governing payment systems and cross-border retail payments, including but not limited to the Principles for Financial Market Infrastructures published by the Bank for International Settlements (BIS) Committee on Payments and Market Infrastructures (PFMIs) may be applied to the ASEAN real time retail payment system insofar as such principles may be applied given the legal and regulatory limitations in each of the AMS.

IV. Definition of Terms

The last Section of this document outlines the definition of terms that are relevant to the ASEAN Payments Policy Framework governing cross-border real time retail payments within the ASEAN region.

The definitions were based on the definition adopted by the Bank for International Settlements (BIS) Committee on Payments and Market Infrastructures (CPMI), formerly the Committee on Payment and Settlement Systems (CPSS), in the glossary of terms in its website as well as published documents on related matters.

The definition of terms are suggested to have a common working knowledge of the terms commonly used in payment systems, and more specifically, to allow the alignment of the policies that would support the implementation of interoperable cross-border real time retail payments within the ASEAN region.

It is recommended that a study of the laws and regulations of the ASEAN members be made by each AMS to determine the feasibility of aligning common terms used in the ASEAN Payments Policy Framework governing real time retail payments within the ASEAN region.

The definition of terms that will be used will take into consideration the BIS glossary of terms and the harmonization of the definitions adopted in the laws and regulations of ASEAN members.

V. Governance

As a matter of good governance practice, there should be a body in charge of oversight over the implementation of the Framework. This body will serve as the approving body for recommendations and studies that may be conducted on various topics for the purpose of achieving payments integration specifically one that would allow real time retail payments within the ASEAN region. Decisions of the governing body will be made through a collegial action.

The execution and enforcement of any decision of the governing body shall be done by each jurisdiction taking into consideration their respective domestic laws. There shall be a cooperative oversight arrangement among the AMS representatives participating in the ASEAN real time retail payment system to ensure the timely and proper enforcement of any decision of the governing body.

The recommendations, studies and technical functions shall be performed by a technical working group or committee specifically mandated to do so. Technical functions will encompass conduct of studies and surveys, the evaluation of the results of such studies and surveys, as well as the preparation of recommendations based thereon to support payment system developments in the ASEAN Region, and/or to address emerging payments-related concerns in the ASEAN region.

Given that the Framework and the projects that will be executed pursuant to the Framework will be undertaken by the participating AMS, the existing structures established for the ASEAN financial integration may be utilized for this purpose. Consequently, the governance functions will be performed by the heads of the central banks, monetary authorities or appropriate regulatory authority tasked with payments oversight, regulation and supervision in their respective jurisdictions. The technical functions will then be performed by the ASEAN Working Committee on Payment and Settlement Systems (WC-PSS). The WC-PSS may likewise be given continuing authority to determine what other payment streams can be pursued for the interoperability project.

VI. Scope

A. Participants

The following are the primary participants in the envisioned ASEAN real time retail payment system:

1. Participating financial institutions (FIs)
 - a. Participating FIs are: (a) duly licensed by the central bank, monetary authority or the appropriate regulator in its jurisdiction and is authorized to provide electronic payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account, electronic money account or any transaction account that enables customers to make payment transactions); (c) clears transactions through a clearing operator and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a settlement account with the settlement bank, or is sponsored into settlement by a qualified sponsoring bank that maintains a settlement account with the settlement bank, to settle its clearing obligations.
 - b. The participating FIs should be under the oversight, regulation and/or supervision by the central bank, monetary authority or the appropriate regulator tasked with payment system oversight and regulation in an AMS.
2. Clearing operators
 - a. A clearing operator providing clearing services to the ASEAN cross-border real time retail payment system should be duly licensed entities in its home AMS. The
 - b. The selection of clearing operators shall be determined by the participating FIs in accordance with applicable principles espoused in this Framework.
 - c. The rights and obligations of the clearing operator/s as against the participating FIs and settlement bank/s should be clearly set forth and properly documented in accordance with the applicable laws of the AMS of the participating FIs.
 - d. A clearing operator providing clearing services to the ASEAN cross-border real time retail payment system shall also be subject to the oversight and/or regulation of the central bank, monetary authority or appropriate regulator in its home AMS.
 - e. Any regulatory action to be taken against a clearing operator shall be made through the cooperative oversight arrangement among the AMS of the concerned parties.
3. Settlement banks/institutions
 - a. The criteria for selecting settlement banks shall be bilaterally determined based on the mutual agreement of the participating FIs. Any such criteria should be appropriately documented.²
 - b. The designation of the settlement bank/s should be determined bilaterally by the participating FIs in accordance with applicable principles espoused in this Framework.

² For example, one of the criteria that the participating FIs would like to prescribe is a minimum capital adequacy ratio. Such criteria should be stated in the bilateral agreement among the participating FIs.

- c. The rights and obligations of the settlement banks/institutions as against the participating FIs and clearing operators should be clearly set forth and properly documented in accordance with the applicable laws of the AMS of the participating FIs.
- 4. Costs for participation
 - a. There should be minimal cost to participate in the ASEAN cross-border real time retail payments given the objective towards achieving efficiency in the retail payment system.
 - b. Participation fees may take the form of the charges of the clearing operator, the settlement bank and other service providers to the participating FIs.

B. Covered transactions

The transactions covered by this Framework are only cross-border real time retail payment transaction as defined in the Definition of Terms annexed to this Framework. The real time retail payment transaction should represent account to account fund transfer, and should not be necessarily limited to card-based transactions.

VII. Clearing

The clearing of cross-border real time retail payments in the ASEAN Region should employ an arrangement that would enable effective and efficient interoperability among the respective real time retail payment systems of the AMS. The clearing arrangement should allow at least any two (2) capable AMS to establish interoperable real-time retail payment systems in the ASEAN Region. Likewise, the clearing arrangement should adopt an onboarding process that facilitates the entry of the AMS that will subsequently participate in said arrangement.

To achieve interoperability, the clearing operation of the cross-border real time retail payment system in the region shall be conducted in accordance with international standards.

A clearing operator shall maintain a reliable, resilient, robust, and secure infrastructure to ensure smooth functioning of the system.

VIII. Settlement

The settlement of ASEAN cross-border real time retail payments among participating AMS shall leverage on existing arrangements such as those involving correspondent banks for cross-border payments within the ASEAN Region.

Any foreign exchange risks arising from the settlement of ASEAN cross-border real time retail payments shall be properly accounted for and managed by the participating FIs. The agreement between FIs should clearly state the parties that should take on the FX risk.

IX. Suggested areas for consideration in pursuit of interoperability and harmonized policies

Once the objectives and principles in this Framework have been adopted, the AMS should consider the matters identified in this section which are critical in promoting interoperability and providing an enabling regulatory environment for the successful implementation of cross-border real time retail payments within the ASEAN region.

A. Primary areas for consideration in the initial implementation of the Framework

1. Determination of feasible means to effectively and efficiently operationalize interoperable real time retail payment systems in the ASEAN Region.
2. Determination of the rules on pricing, specifically on the charging to the payer and payee in different AMS. As a matter of principle, pricing for the ASEAN real time retail payments should adopt a reasonable, transparent and fully disclosed pricing mechanism.
3. Determination of the appropriate cooperative oversight arrangement³ among the central banks, monetary authorities or other regulators with a clear mandate to oversee the participants in the ASEAN real time retail payment system.
4. Determination of appropriate dispute resolution mechanisms that, as a minimum, should be incorporated in the agreements of the participating FIs, the clearing operators, the service providers and the settlement banks.

B. Other areas for consideration moving forward

1. Determination of the channels, instruments, and innovative technologies that may be used to facilitate and secure cross-border real time retail payments in the region, including the possibility of adopting a common regional Quick Response (QR) code standard taking into consideration the developments in the unique retail payment landscape of each AMS.
2. Determination of the policies on disclosure and other consumer protection concerns (such as handling of consumer complaints and inquiries).

³ The arrangement may include enforcement of the decisions of the governing body relative to the implementation of the Framework and the imposition of the appropriate regulatory action on participating FIs, clearing operators, service providers or settlement banks that are under the jurisdiction of the regulators in an AMS.

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Definition of Terms

- a) ASEAN Member States (AMS) – the members of the Association of South East Asian Nations.
- b) Clearing - the process of transmitting, reconciling and, in some cases, confirming payment orders prior to settlement, and the establishment of the final obligations for settlement.
- c) Clearing house - a multilateral system or arrangement that provides its participants with clearing services for payment instructions and, in some cases, settlement services.
- d) Clearing operator – Any person who provides clearing services in a payment system, or defines, prescribes, designs, controls or maintains the operational framework for the system.
- e) Cross-border netting scheme - An arrangement to net positions or obligations between or among parties in more than one jurisdiction.
- f) Cross-border payment - A payment in which the financial institutions of the payer and the payee are located in different jurisdictions.
- g) Cross-border retail payment – a retail payment as defined in this Framework wherein the payer and the payee are located in different jurisdictions. For example, it involves domestic payment systems of at least two (2) jurisdictions, specialized processes and different currencies.
- h) Cross-border settlement - A settlement that takes place in a jurisdiction other than the jurisdiction in which one or both counterparties to a trade are located.
- i) Deferred net settlement - A net settlement mechanism which settles on a net basis at the end of a predefined settlement cycle.
- j) Participating financial institution – a financial institution that is: (a) duly licensed by the central bank or monetary authority and is authorized to provide electronic payment services; (b) engaged in holding of funds of customers in the form of accounts (bank account, electronic money account or any transaction account that enables customers to make payment transactions); (c) clears transactions through a clearing operator and is the participant ultimately responsible for obligations generated from cleared transactions; and (d) has a settlement account with the settlement bank, or is sponsored into settlement by a qualified sponsoring bank that maintains a settlement account with the settlement bank, to settle its clearing obligations.
- k) End-user – any person who originally initiates the instruction to pay or the ultimate receiver of funds in a payment system.
- l) Final settlement - The irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of an obligation by the FMI or its participants in accordance with the terms of the underlying contract. Final settlement is a legally defined moment.
- m) Interoperability - enables financial products and services belonging to a particular scheme or business model to be used or interoperated between other schemes or business models usually of another institution in another jurisdiction. While interoperability often times require technical

compatibility between systems, it can only take effect once commercial/business interconnectivity agreements have been completed.

- n) Netting – An agreed offsetting of obligations by participants of payment systems.
- o) Payment - The payer's transfer of a monetary claim on a party acceptable to the payee. Typically, claims take the form of cash or deposit balances held at a financial institution or at a central bank.
- p) Payment order - an order or message requesting the transfer of funds to the order of the payee.
- q) Payment system - A set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement.
- r) Oversight - A central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned payment, clearing, settlement and related arrangements, assessing them against these objectives and, where necessary, inducing change. These arrangements include financial market infrastructures and other payment, clearing, settlement and reporting arrangements and activities, both within and across jurisdictions (encompassing systems and activities involving large-value and retail payments, foreign exchange settlement, securities and derivatives clearing and settlement, multilateral netting and collateral management) as well as retail payment instruments or schemes. The scope of oversight differs between central banks but includes payment systems, with oversight being conducted domestically and through cross-border cooperation.
- s) Real time retail payment – A retail payment as defined in this Framework wherein the payee/recipient is able to receive funds transferred from a payer/sender at or near real time.
- t) Retail payment – A payment that meets at least one of the following characteristics: (i) the payment is not directly related to a financial market transaction; (ii) the settlement is not time-critical; (iii) the payer, the payee, or both are individuals or non-financial organizations; and (iv) either the payer, the payee, or both are not direct participants in the payment system that is processing the payment.
- u) Retail payment system – A payment system that facilitates retail payments as defined in this Framework.
- v) Settlement – An act that discharges obligations in respect of fund transfers between two (2) or more parties.
- w) Settlement bank – Either a central bank or a commercial bank used to effect funds settlements.
- x) Settlement cut-off time – The deadline set based on agreement of participating AMS for the acceptance of transfer instructions for a given settlement cycle or for matching and/or clearing instruction.
- y) Settlement risk – The general term used to designate the risk that settlement in a funds transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.
- z) Settlement system – An arrangement used to facilitate the settlement of transfers of funds or financial instruments.
- aa) Third party service provider – An entity that provides process arrangements, technology or infrastructure to operators of a payment system.