



Ashok Sathyanathan  
Founder  
Mobile: +91-9619787832  
Email: ashok@lexaashraya.in

## Participation of Payment Service Providers (PSPs) in International Payment Systems

The International Financial Services Centres Authority (IFSCA) has issued a circular (June 06, 2025) outlining the regulatory framework for Payment Service Providers (PSPs) operating within IFSCs to participate in international payment systems. Grounded in the powers conferred under the **Payment and Settlement Systems Act, 2007** and the **IFSCA Act, 2019**, this directive aims to streamline cross-border payment flows while ensuring robust oversight and compliance.

This note provides a brief summary and analysis of the said Circular.

### 1. Overview

The framework outlines guidelines for RBI-regulated PSPs (banks, non-bank PSPs, payment gateways) to participate in international payment systems (e.g., SWIFT, SEPA). It aims to enhance efficiency, transparency, and risk management in cross-border transactions while excluding crypto-based and informal channels.

### 2. Key Provisions

#### A. Eligibility Criteria

- **Tiered Participation:**
  - **Tier 1 PSPs:** Minimum net worth of ₹500 crore; direct access to international systems.
  - **Tier 2 PSPs:** Operate via correspondent banks.
- **Compliance Requirements:**
  - AML/CFT adherence (FATF standards).
  - Cybersecurity certifications (e.g., ISO 27001).

#### B. Operational Guidelines

- **Transaction Monitoring:** Real-time fraud/AML tracking.
- **Settlement:** High-value transfers finalized within 2 hours.
- **Forex Transparency:** Real-time rate disclosures.

#### C. Risk Management

- **Liquidity Buffer:** 10% of monthly cross-border transaction volume.

- **Blockchain/DLT:** Mandatory for high-risk corridors.

#### D. Consumer Protection

- **Grievance Redressal:** Resolution within 7 days.
- **Dispute Resolution:** Pending clarity on cross-border mechanisms.

### 3. Analysis

#### Legal/Regulatory Implications:

- **Cross-Border Compliance:** PSPs must align with FATF standards and foreign jurisdiction rules (e.g., EU's PSD2), increasing compliance complexity.
- **Jurisdictional Conflicts:** Dispute resolution mechanisms for cross-border transactions remain unclear.

#### Operational Challenges:

- **System Integration:** Tier 1 PSPs need direct API integration with international systems, requiring significant tech upgrades.
- **Liquidity Management:** Maintaining buffers in multiple currencies could strain smaller PSPs.

#### Policy Positives:

- Tiered participation (Tier 1: direct access; Tier 2: via correspondent banks).
- Mandatory use of blockchain/DLT for transaction tracking in high-risk corridors.

#### Areas of Concern:

- Ambiguity in liability for transaction failures during currency volatility.
- No carve-outs for small PSPs, potentially stifling competition.

### 4. Comparison with Existing Framework

Aspect	Current Framework	New Provisions
<b>System Access</b>	Limited to banks via correspondents	Direct access for Tier 1 PSPs
<b>Settlement Speed</b>	24–72 hours	2-hour mandate for high-value payments
<b>Forex Transparency</b>	Variable markups allowed	Real-time rate disclosure required
<b>Liquidity Management</b>	Ad-hoc practices	10% buffer mandated

## 5. Stakeholder Impact

Stakeholder	Impact
Tier 1 PSPs	High upfront costs for integration; long-term revenue gains.
Tier 2 PSPs	Risk of losing market share; reliance on correspondents.
Consumers	Faster, cheaper payments; limited recourse in cross-border disputes.
Regulators (RBI)	Enhanced oversight via automated reporting.
Tech Providers	Surge in demand for APIs, DLT, and cybersecurity solutions.

## 6. Compliance Requirements & Timelines

### For PSPs

- **Tier 1:**
  - Apply for RBI approval by **March 31, 2026**.
  - Integrate APIs with SWIFT/SEPA by **December 31, 2026**.
- **All PSPs:**
  - Implement real-time forex dashboards by **Q1 2026**.
  - Submit monthly liquidity reports starting **April 2026**.

### For Regulators

- Publish dispute resolution guidelines by **Q3 2025**.
- Establish MoUs with foreign regulators (e.g., EU, ASEAN).

### For Consumers:

- Verify PSPs' international participation status via RBI's public registry

## 7. Challenges & Concerns

- **Operational:** Liquidity management in multiple currencies for smaller PSPs.
- **Legal Ambiguities:** Liability during currency volatility; no carve-outs for small PSPs.
- **Implementation Costs:** Tier 1 PSPs face significant tech upgrades.

## 8. Conclusion

The framework modernizes India's cross-border payment infrastructure but requires robust investment and regulatory clarity. Key focus areas:

- **Equitable Access:** Support for Tier 2 PSPs.
- **Global Alignment:** Harmonize standards with FATF/PSD2.
- **Consumer Safeguards:** Strengthen dispute resolution mechanisms.

**Timeline:** Draft finalization by **October 2025**; full compliance by **December 31, 2026**.