Future focused FX settlement

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CLS’s role in the FX market

Strengthening resilience and efficiency in the FX ecosystem through global oversight and mutual ownership.
Created by the market for the market

We are the trusted party at the center of the global FX ecosystem

2002
CLS is launched with 39 members and seven currencies

2003
CLS adds four more currencies

2004
First fund FX transaction settled

Four more currencies added

2007
Partnership

CLS Settlement extended for OTC credit derivatives – a partnership with the Depository Trust & Clearing Corporation (DTCC)

2012
CLS is designated as a systemically important Financial Market Utility

2014
CLS wins landmark patent case (Alice Corp vs CLS Bank International)

2015
FX compression service launched with TriOptima

Cross-currency swap settlement launched with IHS Markit

HUF added to CLS Settlement

2016
CLS makes aggregated executed FX trade data available via subscription

CLS extends its technology partnership with IBM

2017
Statement of Commitment to FX Global Code signed by CLS

Alternative models for CLS Settlement membership introduced

2018
New products launched for the settlement, processing and data business lines:

- CLS Cleared FX with LCH
- CLS Reporting / FX Spot Forecast dataset
- CLS Net
- CLS Trade Monitor

First Japanese corporate and funds join CLS Settlement

2019
New products launched for the settlement and data business lines:

- CLS Now
- FX Forward Volume dataset

Public Information
Insight drives our agenda

We apply the expertise, network and trust to deliver a suite of targeted solutions to manage risk effectively across the full FX lifecycle.

**2020**

- Actinver, BNP Paribas, Citibank, J.P. Morgan join CLSNet
- CLSMarketData clients gain access to quantitative analytics capabilities through SIGTech and additional market insights through causaLens

**2021**

- Collaboration
  - Finastra to provide their corporate and buy-side customers with access to CLSNet
  - Capitolis and Capitalab join TriOptima as approved providers under CLSOptimization

- USD trillion average daily value of payments settled in CLSSettlement, in March during the Covid-19 pandemic

- Third-party adoption of CLSSettlement continues:
  - First Philippine bank Metrobank
  - First Japanese manufacturing company Sumitomo Electric Industries
  - First Mexican pension fund Afore Citibanamex
  - First bank in Latin America to offer third-party access Banco Monex

- Trusted resilience
  - Seamless service delivery throughout the Covid-19 pandemic

- Multi-year technology investment program
- Successfully migrating our PvP settlement service to a state-of-the-art technology platform

- Global banks participating in industry pilot to develop alternative PvP solution* for currencies not currently eligible for CLSSettlement

- FX Global Code
- Update includes strengthened settlement risk principles on payment-versus-payment and netting

- Emerging market leaders
- Alfa-Bank and First Abu Dhabi Bank, are the first banks in Russia and the UAE to join CLSNet

- 12
- FSB roadmap Cross-Border Payments progress report issued

* Subject to all necessary approvals
Market developments and proposed solutions

Market developments, the regulatory focus on settlement risk and proposed solutions from CLS.
A refocus on settlement risk

Across the FX industry there is renewed attention and appetite to reduce settlement risk where possible*

FSB roadmap

i. Develop proposals for increased adoption of PvP by encouraging enhancements to existing PvP arrangements and/or

ii. Design of new public sector and/or private-sector solutions for PvP arrangements that currently do not exist by April 2022.

FX Global Code

- **Principle 35**: Market Participants should reduce their Settlement Risk by settling FX transactions through services that provide PvP settlement where possible. The use of automated settlement netting systems is encouraged.

- **Principle 50**: Market Participants should properly measure, monitor and control their Settlement Risk where PvP is not available. The recent updates to Principle 50 place a greater emphasis on the confirmation process of bilateral netting and the agreement of predetermined cut-off points.

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* Settlement Risk, or Principal Risk, is defined in the 2013 BCBS “Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions”, as “The risk of outright loss of the full value of a transaction resulting from the counterparty’s failure to settle. This can arise from paying away the currency being sold, but failing to receive the currency being bought.” (Also referred to as “Herstatt Risk”.)
Market developments and how CLS is responding

What the industry is focused on:
- FSB roadmap
- FX Global Code
- BIS report
- Industry operating environment

What our clients are telling us:
- Open participation model
- PvP settlement
- Automation and standardization
- Flexibility of service

Existing trade flow

CLSSettlement
The global standard in FX settlement risk mitigation

Proposed new trade flow

CLSNet + proposed Alternative PvP*
Members access CLSNet and the PvP offering for currencies outside of those eligible for CLSSettlement via a single network

POLICY support: FSB roadmap
Increased adoption of PvP via new PvP arrangements that currently do not exist

Global Code principles 35 & 50
Automated and standardized net settlement processes

* Subject to all necessary approvals
Global banks participating in our industry pilot to develop an alternative PvP solution*

Features under consideration
- Separate and distinct service from CLSSettlement
- Direct participation
- Alignment of settlement windows to when markets are most liquid
- Adjustable model for jurisdiction-specific dynamics
- Potential support for same-day funding of trades
- Participation for a wider range of currencies
- Settlement sessions per each target currency (versus USD and/or euro)
- Funding based on multilateral netting

PvP protects against loss of principal. Through FX trading and liquidity efficiencies, PvP also plays a role in developing the financial system more broadly, and in doing so, can support economic growth objectives for institutions and currencies involved.

* Subject to all necessary approvals
Careful consideration of the optimal timing for settlement sessions

Major focus on funding/liquidity. Example: USD, EUR and CNH currency funding considerations

RTGS system operating times

Fedwire 21:00-06:30 EST
TARGET2 07:00-18:00 CET
RMB CHATS 08:30-05:00 HKT

Potential funding and settlement windows

Average CNH nostro payment cut-off time

EUR/CNH TBC* (Extended hours required?)
USD/CNH 05:00 – 08:00 CET

1. RTGS system times based on publicly available sources and baselined against CET (summer time)
2. Hong Kong times will be +1 hour in winter since Hong Kong does not have daylight savings time
Potential benefits of an alternative PvP solution*

There are a broad range of potential benefits for participants in an alternative PvP solution

**Capital and liquidity efficiencies**

Significantly reduced funding required to settle FX transactions, when compared to current gross settlement or less standardized bilateral netting arrangements

**Business growth opportunities**

Participants can reach a broader network of trading counterparties while more efficiently utilizing their existing credit capacity

**Operational and IT efficiencies**

- Straight-through processing with standardized CLS reporting and transparency of pre-settlement funding obligations
- Real-time notifications enable same day settlement reconciliation for all eligible currencies, reducing operational risk
- PvP adoption supports policy recommendations to mitigate settlement risk as per the FSB and the FX Global Code

* Subject to all necessary approvals
Trusted by thousands of counterparties within the global FX ecosystem. We make FX safer, smoother and more cost effective.

Created by the market for the market, our unrivaled global settlement infrastructure reduces systemic risk and provides standardization for participants in the most actively-traded currencies.

SETTLEMENT PROCESSING DATA

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