

# Future focused FX settlement

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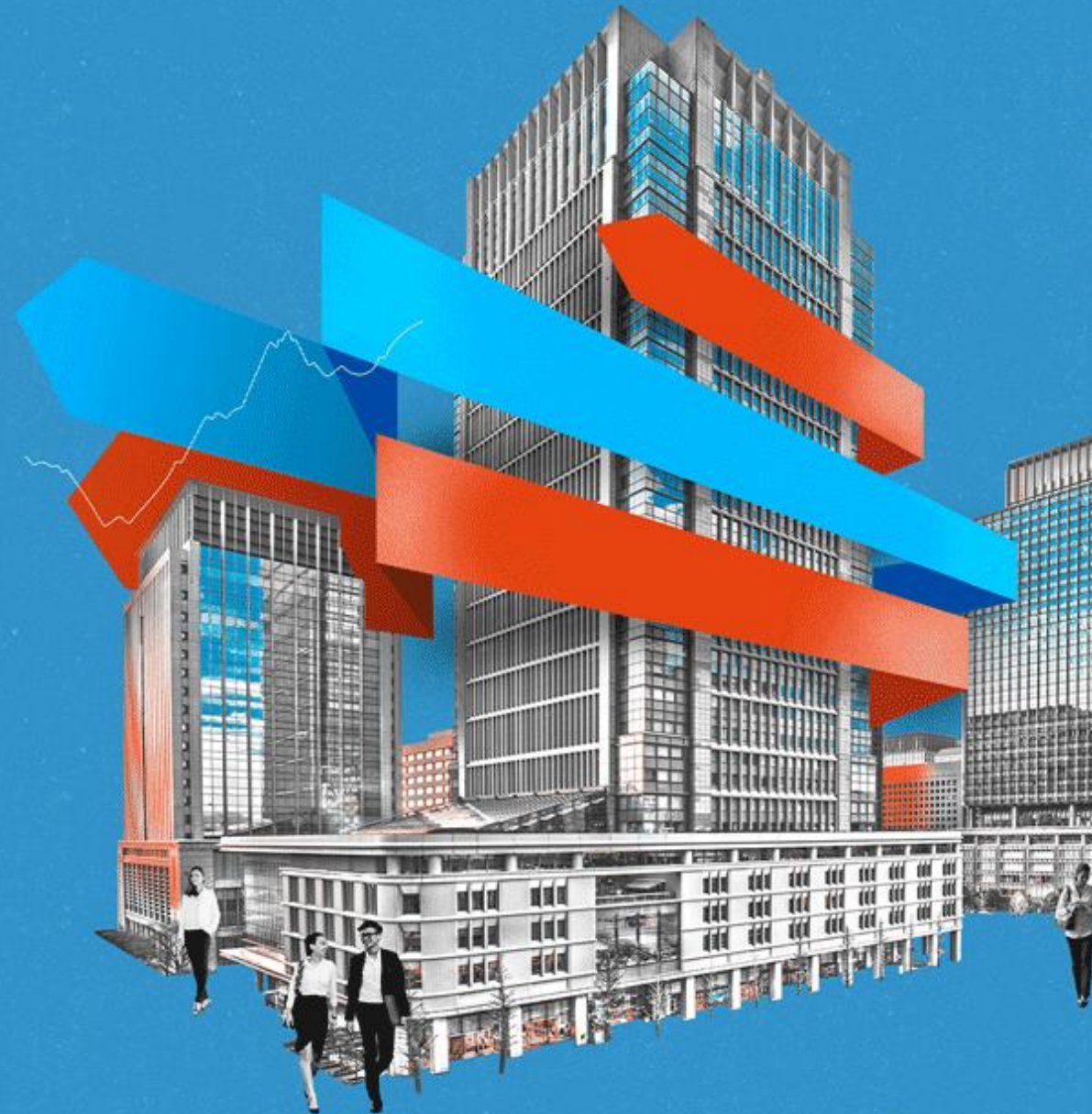
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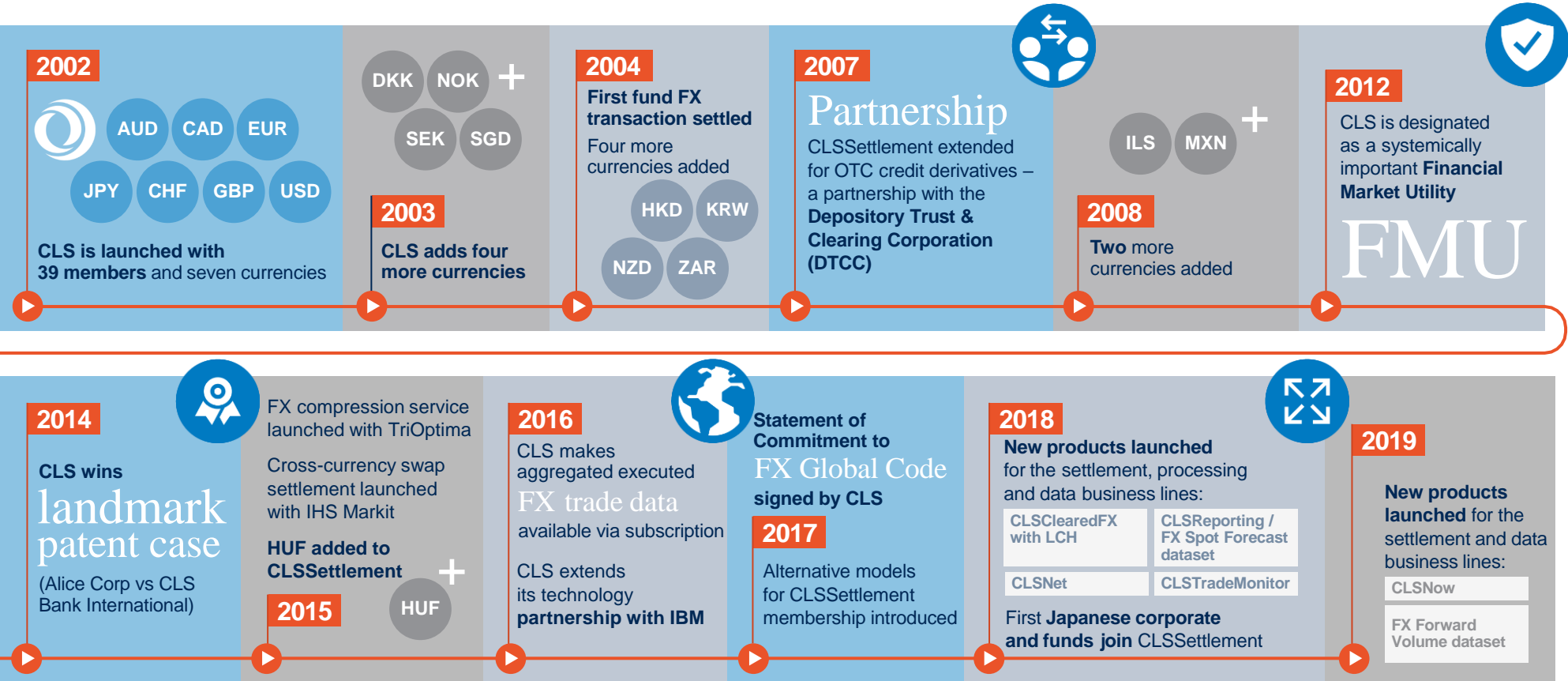
# CLS's role in the FX market

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





# 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**



\* 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

### Building Block 9

- 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.

Oct 2020

## 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.

Jul 2021

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.

\* 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

Proposed new trade flow

**1**

## CLSSettlement

The global standard in FX settlement risk mitigation

**2**

## CLSNet + proposed Alternative PvP\*

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

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**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



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## Global banks participating in our industry pilot to develop an alternative PvP solution\*

### Working group

#### Features under consideration

- Separate and distinct service from CLS Settlement
- 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

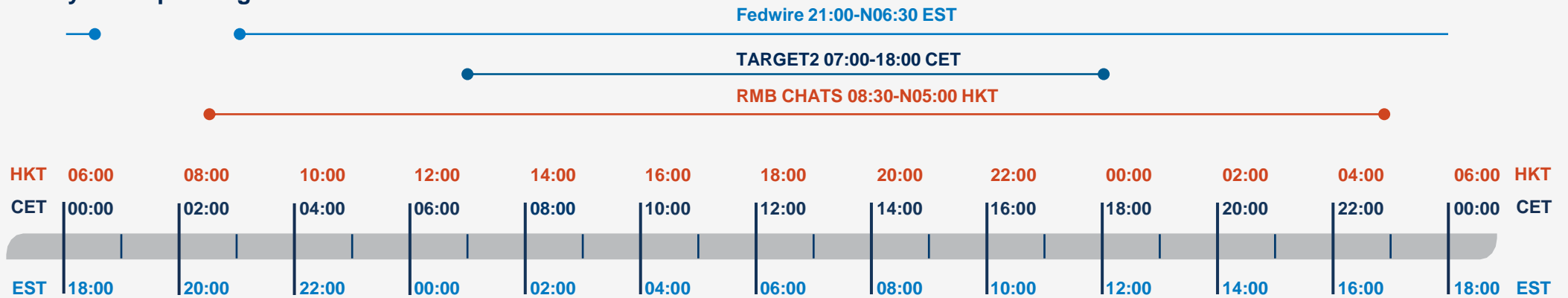




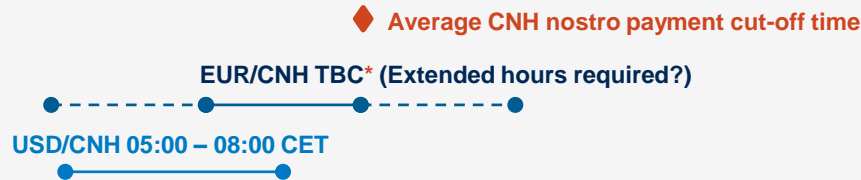
# Careful consideration of the optimal timing for settlement sessions

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

## RTGS system operating times



## Potential funding and settlement windows



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



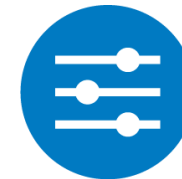
Significantly reduced funding required to settle FX transactions, when compared to current gross settlement or less standardized bilateral netting arrangements

## 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



# Q&A







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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