

6 May 2021

Via Electronic Mail

Global Foreign Exchange Committee
Email: codefeedback@globalfxc.org

Re: GFXC Request for Feedback on Amendments to the FX Global Code and the Introduction of Related Cover Sheets and Templates

Ladies and Gentlemen:

CLS Bank International (“CLS”) welcomes the opportunity to respond to certain questions set forth in the Global Foreign Exchange Committee’s (“GFXC”) request for feedback on amendments to the FX Global Code (the “Code”). Specifically, our response letter focuses on the proposed changes to the Code’s guidance on the management of settlement risk, set forth in Attachment D.

I. Background

CLS was established via a public-private partnership to mitigate settlement risk (loss of principal) associated with the settlement of payments relating to foreign exchange (“FX”) transactions, and is the operator of a financial market infrastructure (“FMI”) that is the predominant settlement system for FX transactions (“CLSSettlement”). CLSSettlement is the world’s largest multicurrency cash settlement system, providing payment-versus-payment (“PvP”) settlement in 18 currencies to more than 70 direct participants, some of which provide access to the CLS system for over 28,000 indirect participants. CLS is an Edge Act corporation organized under the laws of the United States and is regulated by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York (collectively referred to as the “Federal Reserve”). Furthermore, the 23 central banks whose currencies settle in CLSSettlement established the CLS Oversight Committee, organized and administered by the Federal Reserve.¹ The CLS Oversight Committee operates in accordance with the Protocol for the Cooperative Oversight Arrangement of CLS (the “CLS Protocol”).² As a systemically important FMI, CLS is also subject to the April 2012 CPSS-IOSCO Principles for financial market infrastructures, as applicable to payment systems.

CLS is represented on the following local Foreign Exchange Committees (“FXC”): the New York FXC, and its Operations Managers Working Group and Financial Markets Lawyers Group; the London Foreign Exchange Joint Standing Committee, and its Operations and Legal Subcommittees; and the Tokyo Foreign Exchange Market Committee.

II. CLS’s Response to the Proposed FX Settlement Risk Amendments

We are responding to Question D1: “Do you agree with the proposed changes to the Code’s guidance on the management of settlement risk?” CLS supports the proposed changes and the reorganization of principles 35, 50, and 53, particularly: 1) the greater emphasis placed on the use of PvP settlement mechanisms, where available; and 2) the encouragement of netting FX

¹ In addition to the European Central Bank, the CLS Oversight Committee also includes five other Eurosystem central banks (Belgium, France, Germany, Italy, and the Netherlands), which brings the total to 23 central bank members of the CLS Oversight Committee.

² https://www.federalreserve.gov/paymentsystems/cls_protocol.htm

settlement obligations (including the use of automated settlement netting systems) should PvP settlement mechanisms not be available.

The December 2019 BIS Quarterly Review concluded that a significant portion of the global FX market continues to be settled without PvP protection.³ Of the USD18.7 trillion of daily gross FX payment obligations, USD8.9 trillion of payments (approximately half) are at risk. While the decline in the proportion of FX transactions settled with PvP protection is partly explained by the growth in currencies not currently eligible for settlement in CLS, the BIS data also suggests that a significant percentage of trades in CLS-eligible currencies are also settled without PvP protection.

CLS and the policymaker community are taking action to better understand the true scope of FX settlement risk in global financial markets and to encourage PvP adoption for both CLS-eligible and non-eligible currencies. The potential inclusion of settlement risk/method questions in the FX turnover surveys of local FXCs and the inclusion of building block 9 “Facilitating increased adoption of PvP”, and related action items, in the Financial Stability Board’s/CPMI’s Cross-Border Payments Roadmap are two notable examples.

Further, CLS carried out a deep-dive exercise with a global bank Settlement Member (“SM”) for the purpose of understanding how FX trades are settled in the 18 CLS-eligible currencies. CLS plans to complete two additional data analysis exercises with different SMs in 2021, which will enable CLS to: validate findings; produce aggregated, anonymised data points; and contribute the combined findings/conclusions towards a range of key policy initiatives (e.g., better data on settlement methods). For non-eligible currencies, CLS created a working group of over 10 SMs with global operations to evaluate market demand and potential PvP solutions. Initial feedback from working group participants indicated strong interest in a new PvP solution, and a pilot exercise is currently underway. We look forward to updating the GFXC and its members on both of these initiatives in due course.

Despite these efforts, we believe greater action is required to address remaining FX settlement risk. The proposed amendments to the settlement risk principles of the Code rightly place greater emphasis on the use of PvP settlement mechanisms, where available. CLS also welcomes the amendments promoting the netting of settlement obligations (including the use of automated settlement netting systems), supported by appropriate documentation, should PvP settlement mechanisms not be available.⁴

We appreciate the GFXC’s consideration of the views set forth in this letter and welcome further engagement as part of this consultation process and more generally, via our continued participation in local FXCs.

Kind regards,



Marc Bayle de Jessé
Chief Executive Officer

³ [bis.org/publ/qtrpdf/r_qt1912x.htm](https://www.bis.org/publ/qtrpdf/r_qt1912x.htm)

⁴ CLSNet, a bilateral payment netting solution offered for approximately 120 currencies, was created in this same spirit, and seeks to mitigate settlement risk for trades not settling in CLS, while also enabling real-time awareness of currency and counterparty exposures.

Cc:

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