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TO:

Committee on Payments and Market Infrastructures
By email: cpmi@bis.org

Date: 30 September, 2022

Re: Facilitating increased adoption of payment versus payment (PvP)

Dear Sir or Madam,

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the *CPMI Facilitating increased adoption of payment versus payment (PvP) consultation* published on 29 July, 2022.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 24 global foreign exchange (FX) market participants¹, collectively representing a significant portion² of the FX inter-dealer market. Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

In Section 2:

1. Do you agree with the analysis of the causes of non-PvP settlement?

Yes, GFXD members agree with the causes of non-PvP settlement included within Section 2 of the consultation.

Feedback also suggests two other causes of non-PvP settlement for consideration. These are:

¹ Bank of America, Bank of New York Mellon, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, ING, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS and Wells Fargo.

² According to Euromoney league table.

1. Operational requirements/actions which result in eligible trades not being settled on a PvP basis (note: this is also referred to on page 17 of the consultation); and
 2. ‘Same-day’ transactions, i.e. those executed and contracted to settle on the same day, such as those executed in USD/MXN and USD/CAD.
- 2. Do you find that, for your market segments, some causes are more important than others? Please explain.**

GFXD members do not believe that some causes of non-PvP settlement are more important than others.

Whilst operational causes of non-PvP may be ‘easier’ to address (e.g. better communication of procedural cut-offs to those involved in the execution and settlement of a transaction) than wider, systemic causes (e.g. a service to settle EM currencies), our members believe a better approach is to look at the ecosystem as a whole.

The wholesale FX market is global in nature and the types of market participants and activity is considerably varied, and all have a role to play in reducing systemic settlement risk.

- 3. In which currency pairs or products do you find that non-PvP settlement is increasing?**

GFXD member feedback supports the suggestion in the consultation paper that the growth in deliverable EM currencies (e.g. Chinese renminbi) is a factor in the increase of non-PvP settlement.

In Section 3:

- 4. Do you agree with how the proposals for new solutions could increase the adoption of PvP?**

Whilst the solutions as presented appear to offer services to reduce settlement risk, the actual ability to reduce systemic settlement risk will depend on the two counterparties to a transaction using the same PvP solution – assuming that there is a lack of interoperability between PvP solutions.

GFXD member feedback suggests that the solution chosen by a market participant will depend on several factors, not least availability, network benefits (i.e. scale) and costs. Whilst each of the proposals offers different types of characteristics, the wider ecosystem may actually be better served through each new PvP solution complying with a harmonised set of minimum standards – yet to be defined - to ensure that key market requirements can be consistently provided for.

It is also not clear from the solutions proposed whether one or a combination of solutions will offer the ‘ultimate’ solution to: i) address those reasons why transactions settle outside of today’s PvP services, and ii) offer a cost effective, scalable, widely adopted and multi-functional approach and iii) be attractive to potential users when they perform their internal risk analysis v’s existing settlement processes.

Member feedback also suggests that it is very difficult for market participants to ‘converge’ on a single or small number solutions due to legal considerations (assuming it is actually more effective to use a small number of solutions).

It was also noted that there was a very low awareness to the PvP solutions included within the consultation and that this unawareness to new and developing solutions could hamper the adoption of either an individual solution, or multiple solutions.

- 5. Do you find that these new solutions, together, if launched successfully, can mitigate FX settlement risk? Please explain.**

As noted in our response to Question 4, for wholesale FX markets the widespread adoption and integration of a solution is key to reducing settlement risk within the whole ecosystem. Whilst each solution seems to be designed to reduce settlement risk, the risk reduction benefits to the whole system will depend on the scale of use and the functionalities a particular solution offers. It is not clear if these new solutions, if launched together, will result in a cost effective ecosystem to reduce settlement risk i.e. could create a more fragmented settlement landscape with the associated new processes and that these new processes may potentially increase operational risk, especially if they are not as efficient (e.g. may require manual intervention).

For example, today's settlement PvP processes are limited in nature and have defined operational processes and staff coverage. Additional solutions would potentially require an extension of these, which will result in new operating requirements e.g. staff, training, escalation processes etc.

In Section 4:

6. Do you agree with the analysis of the barriers to increased adoption of PvP?

GFXD members agree with the barriers listed. We also suggest that the CPMI focuses on 'security', namely how the new network interacts, roles and responsibilities, cyber security and how information is shared and protected.

7. Which barriers do you find most significant, and do you observe any additional barriers that are not identified in the report? Please explain with specific reference to individual barriers.

GFXD member feedback suggests that the following barriers (not in order of priority) are believed to be most significant:

- **Central Bank Coordination:** The ability for all relevant Central Banks to agree on a coordinated approach. If this is not possible then economies of scale will be limited.
- **Value Date:** Wider industry analysis and coordinated cross-asset/industry approach to value date. Any required changes will impact a lot of today's products/processes and not just FX.
- **Costs:** Multiple solutions will likely incur increased costs, both from a funding and support perspective – i.e. liquidity and operational support. Market participants will invariably perform risk/reward analysis to determine preferred solutions.
- **Network benefits:** For settlement risk to be reduced, both counterparties to a transaction will need to use the same PvP solution and that solution will also need to offer wider benefits to address scale, cost, efficiency etc. Access to a solution is a key contributor to success – especially if the market is limited in the number of liquidity providers, or membership of a PvP solution is restricted by a set of parameters that some market participants may not meet e.g. credit.
- **Ecosystem:** Given the global nature of the FX markets it is key to ensure that all market participants are engaged to reduce settlement risk – including non G20 Central Banks and market participants. Wider engagement especially in those deliverable EM currencies which tend to be more volatile or typified with individual operational requirements is key to reducing settlement risk, and this also includes a suitable legal framework on settlement finality.

8. Do you agree with the possible roles for private and public sector stakeholders in addressing the barriers?

GFXD members largely agree with the roles identified but note that there is a significant reliance on the convening power of the public sector in driving consensus across a significantly wide and global market like wholesale FX – especially at a senior organizational level where stakeholders are equipped to make strategic and often firm-wide budgetary decisions. This is also true of ensuring

that all market participants are engaged and involved to reduce systemic settlement risk, and not just those engaged in this particular CPMI exercise.

Whilst private sector developments can be driven by market (and therefore commercial) forces, as we have previously noted it is difficult for the private sector to convene around individual solutions to ensure scale and efficient use.

Finally, GFXD member feedback suggests that the general practice is to settle as many eligible transactions as possible through existing PvP mechanisms – as per the FX Global Code and BCBS Supervisory Guidance. It is not clear what additional ‘supervisory incentives’ would add in the absence of new solutions to address those transactions settling outside of existing PvP mechanisms.

9. Do you find that the private sector could take on other roles in facilitating increased adoption of PvP? Please explain.

Whilst it is general practice to settle eligible transactions through existing PvP mechanisms, there is a small population of transactions that settles bilaterally, largely for operational reasons, as noted above.

The private sector could collectively focus on addressing the main causes of bi-lateral settlement, but GFXD members note that some of these causes could be difficult to address at scale especially given the number of participants involved in a typical cross-border payment (e.g. counterparties, custodians, nostro agents, PvP provider). This could be another example of how public sector convening powers could help identify and propose solutions.

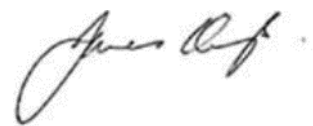
10. How could the public and private sectors work together to take this forward? Please explain and suggest any practical actions that could be taken by existing industry bodies.

GFXD members support that there are significant benefits to public/private sector collaboration and many of the steps needed to reduce systemic risk through an increased use of PvP can only be addressed through collaboration.

Key to success will be the identification of stakeholders or stakeholder communities to collectively discuss dependencies, business requirements, timelines and accountabilities so that many strategic considerations can be successfully addressed. For example, any changes to the current value date concept will have a significant impact and will need wide input from budget/decision makers within many organisations across a wide array of market participants.

We greatly appreciate you giving us the opportunity to share our views. Please do not hesitate to contact Andrew Harvey on +44 203 828 2694, email aharvey@eu.gfma.org should you wish to discuss the above.

Yours sincerely,



James Kemp
Managing Director
Global Foreign Exchange Division, GFMA