



## MARC BAYLE DE JESSÉ

Chief Executive Officer,  
CLS Group

### No quick fix – Addressing frictions in cross-border payments

The Financial Stability Board's (FSB) Cross-Border Payments Roadmap rightly focuses on improvements to existing payment infrastructures and arrangements. Such improvements are needed to address current frictions that limit access, increase costs, and leave risks unmitigated. Removing these frictions involves careful consideration of the regulatory, legal, and operational changes required – many of which cannot be readily addressed by simply adopting a new technology or shifting to a new type of infrastructure.

Core to CLS's purpose is to mitigate foreign exchange (FX) settlement risk, the risk that one party to an FX transaction will pay the currency it sold but not receive the currency it bought. CLS continually seeks to add currencies to its settlement system (CLSSettlement), and is in the process of onboarding the Chilean peso as its 19th currency. Despite recent reports suggesting FX settlement risk is on the rise<sup>[1]</sup>, CLS's ability to expand its payment-versus-payment (PvP) protection to new currencies and improved direct access to CLSSettlement will remain limited unless there are changes to the regulatory regimes applied to systemically important infrastructures like CLS.

Few remaining currencies can meet CLS's currency onboarding standards, which derive from the Committee on Payments and Market Infrastructures' and the International Organization of Securities Commissions' Principles for Financial Market Infrastructures, other applicable regulations, and CLS's own standards for CLSSettlement. Principle 1, legal basis, and Principle 8, settlement finality, have presented the largest obstacles to onboarding new currencies to CLSSettlement. As a result, CLS has started to formalize its views around a new, separate solution for non-CLS currencies (in support of Building Block 9 of the FSB Roadmap – facilitating increased adoption of PvP). Key questions on operating model, account type, settlement finality, and applicable standards remain, and a flexible and agile way of thinking will be required to answer those questions. New technology on its own will not be able to address them.

Specific to access, as a general rule CLS believes it is important to assess the trade-off between participant accessibility and the potential changes to the risk profile of the ecosystem. However, CLS believes there is merit in ensuring that, from a legal perspective, the following categories of low risk non-bank participants

will have the ability to directly participate in systemically important FMI: 1) supranational institutions and multilateral development banks; 2) foreign systemically important FMIs and their operators; and 3) sovereign wealth funds. Depending on the jurisdiction, changes to existing regulations and legislation, including the EU's Settlement Finality Directive, may be required to accomplish this goal.

While the use of new technology may help address current frictions, technology is only one part of the complicated equation to achieve a faster, cheaper, more transparent, and more inclusive global payment system.

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[1] BIS: "BIS Quarterly Review – International banking and financial market developments", specifically Bech and Holden: "FX Settlement Risk Remains Significant" (December 2019).