



How we solve an **old money** problem with **new market technology**

Baton's 90-day method for dealing with \$8.9 trillion of settlement risk and tackling \$300 million of intraday liquidity costs.

About this Industry Article

This article explores the challenges around settlement and liquidity within Cash Management & Treasury Operations, and FX, highlighting how these challenges are driving the need for a new approach to the movement of assets - and how the Baton platform delivers this.

The article demonstrates how, within 90 days, Baton provides firms with a full assessment of how they can overcome their settlement and liquidity challenges. It highlights how Baton's proven methodology provides clients with:

- ✓ **The ability to measure ROI directly against their existing systems by using their own historic data**
- ✓ **A clear roadmap for implementation and beyond - covering key delivery milestones and opportunities for the elimination of legacy technology and manual processes**

Within the article, we explore two use cases in Cash Management & Treasury Operations, and FX:

- ✓ **Internal** - How Baton improves Cash Management & Treasury Operations across the complex legal and booking entities within a single organisation.
- ✓ **Peer To Peer** - How Baton provides an efficient platform for 24-hour on-demand FX settlement between networks of separate organisations with settlement finality.

The article shows how the Baton platform solves a longstanding problem in Financial Markets, providing firms with a solution to deal with \$8.9 trillion of settlement risk and tackle up to \$300 million of annual intraday liquidity costs.

“

For large banks, the estimated total cost of intraday liquidity comes to \$100-\$300 million every year.

- Oliver Wyman, 2018

The need for a new approach to settlement and liquidity management

Firms face two distinct challenges in driving the efficiency of settlement and liquidity:

01

The risk, operational burden and cost of FX settlements

For almost two decades, FX businesses have faced a growing problem:

- ⊗ **Transaction volumes
have continued to rise**
- ⊗ **Margins have been
compressed**
- ⊗ **Operational processes
have remained inefficient**

As well as increasing operational costs, capital requirements and funding costs, this situation presents firms with significant settlement risks - an \$8.9-trillion a day problem according to the BIS Quarterly Review¹.

Even CLS is only able to resolve settlement risk for a limited subset of participants and currency pairs - and is reliant on an operational cycle that creates downtime on liquidity.

This has led to the need for a platform that is open to the entire market - one that resolves funding and settlement risk issues, reducing the operational burden for all firms by completing transactions in real-time across any fiat currency.

02

The inefficiency of Cash Management & Treasury Operations

Despite the fact that intra-company trades are booked internally, the legal entities involved still rely on street infrastructure (including conventional cash accounts and SWIFT messaging) to complete their transactions.

¹ - 'FX settlement risk remains significant' https://www.bis.org/publ/qtrpdf/r_qt1912x.htm

This restricts visibility, subjects each entity to many of the same costs as they would face for external transactions, and increases the downtime on assets - decreasing availability and leading to higher funding costs.

A 2018 report from Oliver Wyman² puts the estimated total cost of intraday liquidity at \$100-\$300 million per year for large banks, while highlighting that firms could easily deliver a 25-50% reduction in intraday liquidity costs by adopting a more effective approach to liquidity management.

Financial institutions increasingly need a solution that:

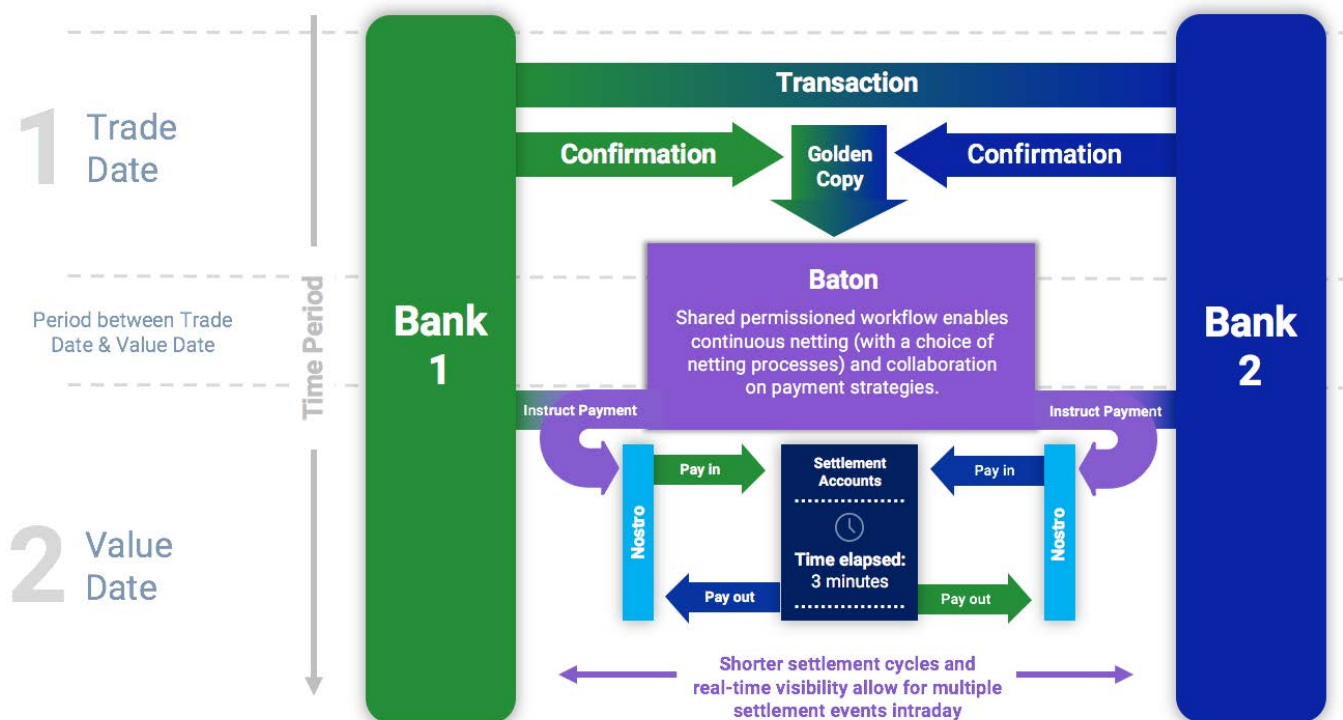
- ✓ **Delivers real-time visibility and legal certainty over ownership**
- ✓ **Eliminates settlement risk**
- ✓ **Reduces operational and settlement costs**
- ✓ **Reduces downtime on assets while they are in transit**
- ✓ **Improves the efficiency of funding and liquidity across individual entities and the wider business**



2 - 'Intraday Liquidity Reaping the benefits of active management' <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2018/june/Intraday%20Liquidity%20Final%20Report.pdf>

Overcoming settlement and liquidity challenges for peer-to-peer FX transactions

Featuring no restrictions on currencies, participants or products, Baton's platform provides firms with an effective market-wide solution for peer-to-peer transactions in real-time.



As shown above, the Baton platform allows for easy collaboration between counterparties throughout the post-trade process - including continuous netting (using threshold or time-based netting strategies) up to the point of settlement and support for different payment strategies (such as split payments, conditional payments and linked payments).

“
Baton's shared permissioned workflow processes deliver a 25% reduction in settlement costs.

Using the Baton platform, firms are able to:

- ✔ Complete on-demand settlement processes in three minutes or less - removing uncertainty over when payments will be received
- ✔ Eliminate settlement risk
- ✔ Deliver a 25% reduction in settlement costs
- ✔ Agree settlement values gross or net (using threshold or time-based netting strategies)
- ✔ Collaborate on a range of payment strategies (including split, linked and conditional payments)
- ✔ Eliminate the need to pre-fund hours before receipt
- ✔ Implement split payments using a shared workflow, easing liquidity blockages

The Baton platform streamlines the entire process, giving counterparties real-time visibility and almost-instantaneous, on-demand settlement that delivers settlement finality, eliminates settlement risk, and increases the availability of funds. It achieves this using existing infrastructure, without any requirement for the tokenisation of assets.



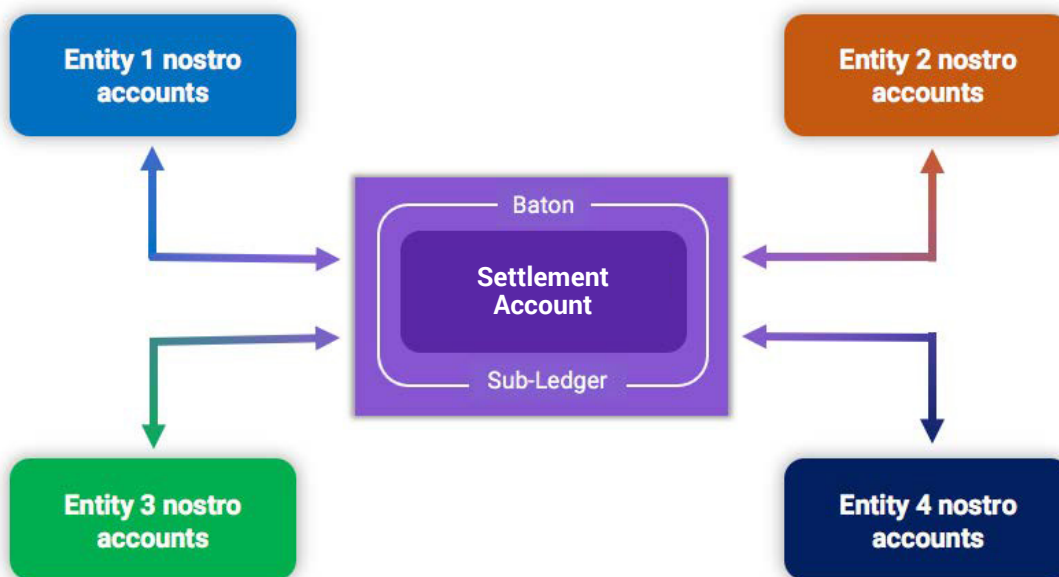
Find out more about how Baton provides an efficient platform for 24-hour, on-demand FX settlement with our in-depth use case for peer-to-peer transactions.

[READ MORE](#)

Overcoming liquidity challenges for internal Cash Management & Treasury Operations

To solve the problem of inefficient intra-company transactions, Baton provides a system that allows entities to share a real-world bank-based settlement account for each currency.

This delivers full visibility and legal certainty over the assets in a shared account, giving intra-company entities the ability to transfer real assets on-demand without the need to use street infrastructure to complete transactions.



As shown above, intra-company activity that takes place within the settlement account, through the Baton platform, require no external cash movement; minimising the downtime on liquidity for each entity and the wider institution.

Using the Baton platform, institutions are able to:

- ✔ Eliminate settlement risk and provide legal certainty, reducing the capital burden associated with transactions
- ✔ Reduce funding and overdraft costs across multiple segregated accounts
- ✔ Optimise resources at the group level with on-demand transfers between legal entities
- ✔ Move away from batch-based processing with pre-funding requirements
- ✔ Optimise their netting and payments logic, using a shared workflow, to match their funding positions
- ✔ Gain real-time visibility at the desk, entity and group level - leading to improved management of liquidity across the business

Find out more about how Baton improves internal Cash Management & Treasury Operations for financial institutions with our in-depth use case.

[READ MORE](#)



Delivering value in 90 days: Baton's methodology

Demonstrating the practical nature of its solution, Baton provides rapid implementation and comprehensive support - along with a unique evaluation process.

As part of the implementation project, it gives firms the opportunity to evaluate the solution alongside its existing processes - determining the impact on key business metrics by using their own historic data.

The first 30 days of implementation are dedicated to an exploration of Baton's platform within the context of the client's business. This enables firms to view their own data being run through the system, allowing for a clear view of the benefits in comparison to the existing process.

This exploration is simple to carry out. It is designed to require no specific integration on the client's side (only needing file import/export), while also being light on documentation requirements and costs. There is also no need to adopt new payment rails (either for the exploration or the wider implementation).

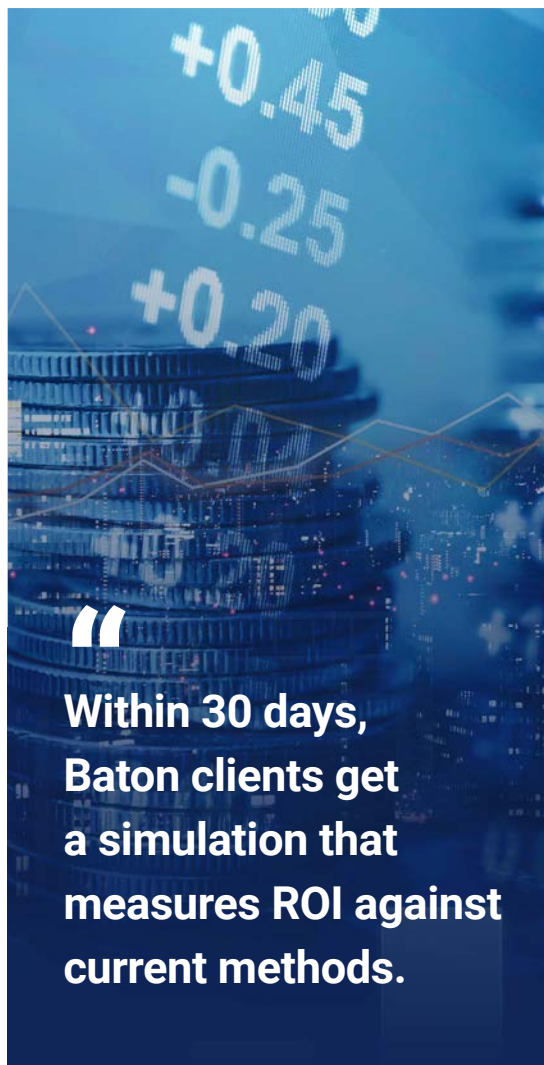
The result for clients is:

- ✓ A simulation of data sets that allows them to measure ROI against their current methods
- ✓ All the calibration parameters needed to go live with the solution

This gives them the ability to not only see the solution in action with relevant data, but also lay the groundwork for full implementation.

Following a successful evaluation process, the next 60 days are focused on building the core integrations, which typically include:

- 1 Data Pipes and Normalisation**
- 2 Set up of Settlement Accounts and SSI Management**
- 3 Integration to the payment gateway layer**
- 4 API Integration by banks**



Baton takes a modular approach to this process, characterised by its gateway integration layer. This is the element that facilitates integration with all client and third-party systems (including existing payment rails and settlement venues), greatly reducing the time and effort required to implement the overall solution.

Within 90 days, Baton establishes:

- ✓ **A model of the client's current payment flows using the Baton process - enabling them to measure the impact on capital, funding, settlement risk and settlement costs**
- ✓ **The benefits the client can achieve by deploying the Baton platform**
- ✓ **A phased implementation roadmap, detailing each milestone for delivery beyond the pilot - along with the benefits of each milestone**
- ✓ **A medium and long-term roadmap of how legacy technology and processes can be decommissioned or moved over to Baton - enabling the client to save on legacy costs and manual processes**
- ✓ **The total cost of implementation (depending on the levels of integration)**

About Baton Systems

Baton Systems is reforming how payments are made in the world's largest financial markets. Its distributed ledger-based platform enables real-time visibility and movement of fiat currencies and real assets; reducing settlement risk and increasing liquidity.

Founded in 2016 by technology, payments and capital markets veterans, Baton Systems works with numerous market participants - including major global banks, custodian banks and exchanges - to meet firms' demands for capital efficiency, risk management and operational superiority.

Discover more about how the Baton solution can transform the movement of assets, solving an old money problem with new technology.

Contact the Baton experts to see how your firm can improve the availability of liquidity and eliminate settlement risk by streamlining and automating transaction processes.

Find out more at <https://www.batonsystems.com/>