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Colin Lambert
Co-Founder and Publisher, The Full FX

Baton Systems recently spoke with Colin Lambert, publisher of The Full FX, about what is getting the FX market talking and why the back office is ripe for transformation.

In its 2019 Triennial Survey, the Bank for International Settlements (BIS) surprised the FX industry by highlighting settlement risk as an area of growing concern when previous surveys had focused solely on trading volumes. Specifically, data collected for the survey showed that approximately USD8.9 trillion worth of FX payments is at risk on any given day.[1]

"It made the industry sit up and take notice," Colin said. "It was, frankly, a flag that the regulators want something done about settlement risk."

The Global Foreign Exchange Committee (GFXC) has answered this call to arms. As part of its ongoing review of the FX Global Code, it is looking to strengthen guidance on the management of FX settlement risk, wishing specifically to place greater emphasis on PvP settlement mechanisms where available.

As part of its feedback programme, the GFXC proposes an amendment[2] to the Code that *'if a counterparty's chosen method of settlement prevents a Market Participant from reducing its Settlement Risk (for example, a counterparty does not participate in PvP arrangements or does not agree to use obligation netting) then the Market Participant should consider decreasing its exposure limit to the counterparty, or creating incentives for the counterparty to modify its FX settlement methods.'*

"People are ready to innovate."

Colin commented that one reason that FX settlement risk has not historically been fully addressed by the industry is because, on the face of it, settlement is not a client-facing function. Although the benefits of an

[1] https://www.bis.org/publ/qtrpdf/r_qt1912x.htm
[2] GFXC Request for Feedback, April 2021. Attachment D: FX Settlement Risk, Principle 35

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efficient process will eventually be seen by clients, he said, when looking at structural solutions it is hard for one institution to differentiate itself over the others.

“But the GFXC’s proposed amendment is a very strong statement,” Colin commented, “and it gets people’s attention because it is very, very client-facing.”

Access to the market, he admitted, could be restricted for certain participants who may not be eligible for some of the existing PvP programmes because they are not very well capitalised or have limited settlement lines. But, Colin said, it can be inferred from the GFXC’s statement that the industry is being urged to look beyond existing settlement mechanisms and at the technology which is already available to provide alternative solutions.

How, then, are banks responding to the GFXC’s statement? Colin commented that 99% of banks in the FX industry have signed a statement of commitment to the FX Global Code. “Banks will have to pay attention to the GFXC because it will impact client relationships. The buy side will be looking for a solution and the banks will recognise that there is a problem if they can’t deal with their clients as much as they could,” he said. “Banks have made that statement of commitment and clients will look towards the banks for a solution, but I think the solution will come from the fintech industry.”

Colin also spoke about the fact that technology in the digital asset space is a further topic generating considerable interest in the FX market. “There’s a live experiment going on with a new asset class,” Colin said, “and we will see more of a spillover from digital assets into FX in terms of the way we handle and build the next framework for foreign exchange.”

All this means that the post-trade arena is ripe for investment. Not only do settlement risk issues impact client service, but, ultimately, banks need to make a return on capital. This means that the cost base as well as traditionally client-centric functions need to be addressed and budgets need to focus on the back office.

“The sell-side is looking to back a winner,” Colin explained. “There is probably no single solution out there that everyone thinks will be the future. Banks will be looking to seamlessly connect three or four different aspects of post-trade, so there will need to be a degree of collaboration between solution providers.

"We are about to go through a new innovation cycle in FX," he predicted. "Conversations are now being had because people are ready to innovate."

The full interview with Colin Lambert can be viewed at pay21.batonsystems.com/show-2-on-demand/

About

Colin Lambert co-founded The Full FX following the closure of Profit & Loss Magazine, a publication he worked for from 2001, most latterly as Managing Editor.

Colin joined Profit & Loss after a 21-year trading career in the foreign exchange industry. During this time he spent the majority of time trading spot FX before he moved into a proprietary trading role. He finished his dealing career at British Petroleum. During his trading years, he spent time working in London, New York, Singapore, Tokyo and Toronto and held several senior posts including that of Chief Dealer, FX and Deputy Treasurer.