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**“Baton is the vanguard of what is happening in FX settlements.”**

### Baton has allowed us to challenge the sacred cows of the industry

In the PAY21 Q&A session, Alex Knight, Baton's Head of EMEA and Global Head of Sales, asks Jerome what he thinks has changed in the industry to make people more open to adopting new settlement processes and technology compared with the past.

“I think a lot has changed,” says Jerome. “Given that, over the past 10 years, we have lived through a number of significantly outsized market dislocations and the amount of risk in circulation on a daily basis has finally gotten to a point where we need to do something about it.” Risk models, he says, can only be perfected so far without taking on the challenge of the technology which underpins the ability to settle a trade.

With FX, Jerome says, there are a number of parameters to be considered such as the risk undertaken through trading, the amount of liquidity in the market and the cost of funding relative to BAU and liquidity buffer requirements.

“Focusing on the risk parameter, Baton demonstrates that we do have a better understanding of the technologies that can have a significant impact on settlement cycles,” comments Jerome. “Previously we felt we had to live with the systems that were supporting these daily processes without questioning their nature. Baton has allowed us to challenge the sacred cows of the industry, and that is super important.”

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### It is incumbent upon the industry to work with technology like Baton's

This challenge is happening now, Jerome says, simply because the numbers in play are so large and likely to grow further. He explains that not only do timeframes need to be collapsed to better channel risk and ensure that obligations are being met, but also to give better flexibility to market participants in terms of how they manage liquidity and source funding for the currencies in which they are active.

Jerome notes that balance sheet and capital constraints have also come into play as a result of the larger numbers, and that these are only going to become more important, particularly as emerging markets take on more significance in daily trading and money management activities.

“It really is incumbent upon the industry to work with technology like Baton's to create safer, secure and much more controlled trading and settlement environments,” he says.

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**“There is even more of a motivation to work with providers to define a solution.”**

### **Banks hate boiling the ocean to achieve a new normal**

Alex Knight asks Jerome: How do we build consensus and evaluate the benefits of a technology project focused on settlement processes and risk. Jerome responds that the key is for a vendor to work within the banks' existing structure to improve overall performance. Proof of concept is vital.

“With Baton's platform, if I'm told I can take a settlement cycle from 24 hours to three minutes, I'm listening very clearly,” Jerome says. “And if I'm told I'll be able to see this claim validated within three months, again, I'm listening attentively.”

“In investment banking we hate boiling the ocean to achieve a new normal. So if I can work within the constraints of existing APIs and payment protocols but take better controls of the process - for example by using distributed ledger technology – then I can see achievable goals within a manageable time frame.”

Assuming that cost factors can also be agreed, Jerome says, the proposition should resonate with a potential adopter in this space. “At the end of the day, this is a leadership question,” he explains. “The risk agenda is going to become more of a constraint, so there is even more of a motivation to work with providers to define a solution.”

“Working with the vanguard are leaders supporting these efforts and testing the hypotheses around the application of new technologies. These take us to a more secure and empowered space in settlement.” The market, Jerome says, needs to be woken up to the availability of technology which can address wider settlement exposure issues and reduce the armies of people involved in the fragmented settlement processes.

Another pressing issue is the impact of technology silos in capital markets, which often exist for legacy reasons. Baton aims to consolidate data and processes across multiple silos as part of a natural evolution as new technologies are put in place.

“The breaking down of those silos is very much in process today,” Jerome says. “Trading desks at major banks are blurring the lines and offering multi-asset class services to clients. This hasn't fully flown over to the settlement side of the equation because we haven't yet validated our assumptions about what can be achieved within just one asset class.”

Baton is working with several clients who are testing or adopting its distributed ledger technology for FX settlement. Jerome believes that the same principles could be applied in due course to settlement for a range of other business lines including cash and securities.

“I think this is a natural progression of what Baton is working on today in the FX space,” Jerome says. “This is the journey we are on. It's timely and it's exciting.”

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## **About Jerome**

Jerome Kemp is an independent consultant and senior advisor to Baton systems with over 35 years’ experience in capital markets.

Jerome spent nine years at Citi as global head of futures, clearing and collateral, with his responsibilities expanding in 2018 to cover the bank’s FX prime brokerage business. Prior to this he was Global co-Head of Futures and Options at J.P.Morgan.

Jerome was chair of the Futures Industry Association Board from 2018 until 2020. He holds a BA from Brandeis University and a Master’s degree from Columbia University’s School of International and Public Affairs.

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## **About Baton Systems**

**Founded in 2016 by technology, payments and capital markets veterans, and backed by venture capital, Baton Systems is reforming how payments are made in the world’s largest financial markets.**

By delivering on-demand synchronization and orchestration of asset movements through its distributed ledger-based platform, Baton is eliminating friction to speed clearing and settlement, reducing risk and pre-funding requirements, and increasing liquidity.