

Baton Core-FX: Transforming FX Settlements



Alex Knight

Global Head of Sales
- Baton Systems

“This is going to completely revolutionise the world of FX settlements,” says Alex Knight, Baton’s Head of Sales in PAY21 October. Alex presents Baton Core-FX, a solution that gives all market participants a fast and secure platform for the safe settlement of their FX trades.

Alex explains that Core-FX uses Baton’s shared workflows and ledger to settle trades, from matching all the way through to payment.

“It allows you to safely settle, with all of the benefits of PvP, when you want to” he explains. “It cuts back on complexity and lets you use flexible and automated netting and payment strategies. Once the process is triggered, your entire settlement cycle can be completed in just a few minutes.”

Why is this important?

Post-trade processes, Alex says, have remained virtually unchanged for the last 20 years. Volumes, however, have sky-rocketed and yields have been driven down. “I think most would agree,” he says, “that the existing post-trade processes are no longer fit for purpose.”

In recent years regulators and other industry bodies have expressed concern about the level of settlement risk, and the subject has been highlighted again in the Global FX Committee’s revisions to the FX Global Code.

Not only that, says Alex, but intraday funding costs at major banks are dominated by FX and need to be managed down.



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How Core-FX is unique

Alex goes on to explain that Core-FX uses real money held in real accounts at commercial banks. This means that it can be used for all currencies rather than a select few. Alex also makes it clear that the solution does not rely on the tokenisation or digitisation of assets.

Core-FX is backed by a rulebook so that users can benefit from the latest decentralised technology alongside the certainty of a defined governance process with settlement finality.



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“Core-FX is system agnostic and unintrusive,” Alex says. “There is no need to rip out and replace your existing infrastructure.” Integration with core ledgers, payment gateways and messaging systems is seamless, he explains. Core-FX uses secure access protocols, adapters and APIs.

Safer settlements

Turning to the benefits of Core-FX, Alex explains that it allows for zero friction and collaborative and configurable settlements which can be effected at a time of the user’s choosing, giving almost immediate access to funds. “This provides the opportunity to radically reduce settlement risk and liquidity usage,” he explains. “One of our customers refers to ‘TWA: Transparency, Workflow and Auditability.’”

The Demo

Alex demonstrates how he can view his transactions against counterparties, filtering by counterparty, currency or value date, as well as trade or settlement status. “Importantly, what I see is what my counterparties see,” he says. “That’s the beauty of the shared ledger.”

He goes on to show how Core-FX can represent three versions of the same transaction: the golden copy, which can be generated via a third party platform or through Baton, and the version of the trade that each of the two counterparties has booked in its own risk systems.



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“By default, these trades are continuously netted for each combination of currency pair, value date and counterparty,” he says, remarking that use of the shared ledger means that the netting process is identical for each counterparty.

On – or occasionally before – value date, the netting groups will be confirmed, meaning that the population of trades and the netting values are set, Alex explains, stressing that shared data and workflows means that there is no need for old-style reconciliations or manual processes to agree these values.

“Clicking into the settlement itself, we can see the underlying shapes,” Alex says. “It’s quite common for firms to want to split settlements into smaller shapes, but without a shared workflow and shared ledger, this often results in a high degree of communication and challenges around reconciliation.”

He goes on to demonstrate how Core-FX eliminates settlement risk by simultaneously changing ownership of the currencies using shared settlement accounts at commercial banks. It is only when both sets of funds have moved that change of ownership can take place. Once this has occurred, funds can



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be moved from the shared settlement account into the destination nostro accounts for each party. All of this, Alex says, takes place consistently within a three-minute window.

He explains how smart workflows are set up, with each settling party operating as a node within Core-FX, and each node profile operating on a secure, single-tenant cloud infrastructure, ensuring that there is no data pollution.

“Scheduled settlement runs can be agreed between two counterparties at whatever time proves optimal for them so it suits their broader funding requirements,” Alex says.

Core-FX also offers users the ability to set up rules automatically splitting settlements into values of a maximum size. This, Alex explains, can be specific to each currency and each counterparty.

Joining Alex on stage, Jerome Kemp, President of Baton, agrees that Core-FX is providing long-overdue transformation of the way that FX market participants settle their trades.

“Large banks face multiple challenges when it comes to settling their FX trades,” Jerome says. “While CLS offers PvP settlement to its 78 members in 18 eligible currencies, on any given day there are 25-30,000 clients of CLS members and a raft of ineligible currencies in the market. This translates to \$8.9 trillion of risk outside the CLS parameter. Core-FX radically changes this paradigm.”

 **About Baton Systems**

Baton Systems is revolutionising the entire front-to-back post-trade process, introducing interoperable and connected digital market infrastructures from trade matching through to settlement.

Empowering financial institutions to take control, Baton is redefining what post-trade processing should look like: fully connected, friction-free, flexible and transparent. Founded in 2016 by Silicon Valley technologists and capital market specialists, Baton's solutions are now being used by several of the world's largest financial institutions to facilitate the movement of billions of dollars of cash and securities on a daily basis.

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