



TO:

Committee on Payments and Markets Infrastructures

By email: cpmi@bis.org

Date: 14 January 2022

Re: The Committee on Payments and Market Infrastructures (CPMI) Consultation on Extending and aligning payment system operating hours for cross-border payments

Dear Sir or Madam,

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the *CPMI Consultation on Extending and aligning payment system operating hours for cross-border payments*, published on November 18, 2021.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 23 global foreign exchange (FX) market participants¹, collectively representing a significant portion of the FX interdealer market. Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

1. Can the extension of real-time gross settlement (RTGS) systems' operating hours materially contribute to achieving the cross-border payments targets endorsed by the G20, especially in terms of speed? Please explain.

The GFXD believes that the extension of RTGS systems' operating hours can contribute to both i) increasing the number of wholesale FX transactions settled on a payment versus payment (PvP)² basis (and thus reducing Principal (Settlement) Risk³), and ii) achieving the targets endorsed by the G20.

Increasing PvP settlement

As we explain in our papers *First Steps Towards 24/7 FX Settlement Capabilities - Expanding Payment versus Payment (PvP) opportunities*⁴ and *Considerations relevant to initiatives and developments in wholesale FX*

¹ Bank of America, Bank of New York Mellon, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS and Wells Fargo.

² <https://www.bis.org/publ/bcbs241.htm> ("BCBS FX Supervisory Guidance")

³ <https://www.bis.org/publ/bcbs241.htm>

⁴ <https://www.gfma.org/wp-content/uploads/2020/03/expanding-pvp-opportunities-march2020.pdf>

*settlements*⁵ increased overlap in RTGS systems' operating hours can provide greater opportunities for PvP settlement. We do note however that a mechanism is still required to enable simultaneous settlement.

This is an important first step in moving towards continuous 24-hour settlement for five, six or even seven days a week (or as required by the industry). It could also lead to either the evolution of existing PvP mechanisms or the development of new PvP mechanisms.

Whilst increasing the RTGS systems' operating hours will create additional opportunities for PvP settlement, we believe that the immediate benefits will be constrained. The wholesale FX market is global in nature, the size/value of the payments involved is considerably higher than those seen in the retail sector and each transaction will have a legally contracted Settlement Date on which the appropriate payments should be made. The greatest benefit will therefore be in situations where there is a maximum amount of overlap on the same calendar day.

Finally, in our recent response to *The Committee on Payments and Market Infrastructures (CPMI) call for ideas on solutions to expand PvP settlement*⁶, we explain that participants in local markets require funds to be moved at specific times during the day for commercial reasons (thus leveraging the provision of liquidity in their local market) and not just at specific times dictated by a particular central operating window. One option to address this could be to create a Global Settlement Date, in which a standardised 24-hour period is adopted across time-zones, for example running from 1700 NY time⁷ and we support further centralised supervisory engagement on this topic

Achieving G20 targets

With specific reference to the G20 targets, extensions to the operating hours of RTGS systems could have a positive impact on the speed target, assuming that any benefits of extended hours are available for participants to leverage.

2. What additional actions would be needed by the public sector and/or private sector entities, beyond those described in the G20 roadmap (see Annex 3 of the current report), to facilitate the extension of RTGS operating hours and realise the benefits that could result from extended RTGS operating hours?

In our paper *First Steps Towards 24/7 FX Settlement Capabilities - Expanding Payment versus Payment (PvP) opportunities*⁸, we discuss in detail those considerations (including operational and risk considerations) for the private and public sector, and we believe that many of these remain today and would need to be addressed by both sectors to ensure success.

The paper was divided into three sections:

⁵ <https://www.gfma.org/wp-content/uploads/2019/09/developments-in-wholesale-fx-settlementsseptember-2019.pdf>

⁶ <https://www.gfma.org/wp-content/uploads/2021/11/gfxd-response-pvp-rfi-final.pdf>

⁷ <https://www.gfma.org/wp-content/uploads/2020/03/expanding-pvp-opportunities-march2020.pdf>

⁸ <https://www.gfma.org/wp-content/uploads/2020/03/expanding-pvp-opportunities-march2020.pdf>

1. *Dependencies Impacting Increased PvP Settlement*, which includes both internal (e.g. staff available for increased periods) and external dependencies (e.g. a coordinated migration strategy to new operating hours).
2. *Today's Post Trade Processes*, in which we identify a series of generic post trade processes and conclude that all will be impacted by an increase to the operating hours of RTGS systems.
3. *Impacts on Post Trade Processes*, where we discuss in detail the impacts across each of the previously identified Post Trade processes.

Finally, we end the paper with a series of *Open Questions* and *Recommendations to the Private and Public sectors*, which we have included below for ease of reference:

Open Questions

Market-wide Considerations

- If RTGS operating hours were extended, would the specific RTGS membership policies and procedures require amendments to ensure a steady flow of liquidity throughout the day?
- Are there considerable benefits of scale should multiple Central Banks look to extend their RTGS operating hours?
- Are market participants able to quantify the potential benefits across the whole value-chain (e.g. credit and capital benefits) against the changes which would be required to accommodate such changes (e.g. staffing models)?
- Given the incentives to settle on a PvP basis (e.g. credit/liquidity management), and the potential benefits of wider participation, would market participants look to settle all non-PvP transactions on a PvP basis or a sub-set of transactions and what is the impact of this?
- How to ensure that Nostro providers can take advantage of extended RTGS operating hours (and provide more real-time advice on the receipt of funds)?

Funding

- FX as an asset class is often used to fund the purchase or sale of other assets, with the FX transaction normally settling on the same day as the asset. How would the market migrate to facilitate simultaneous settlement of the FX transaction and the underlying asset?
- Are the new solutions which are moving the industry towards 24/7 settlement interoperable, both within FX and cross-asset?

Operating Practices

- Could existing regulatory requirements be accommodated (e.g. same day post-trade reporting), were trading to be extended to later in the day?
- If trading were to continue later in the day, would both counterparties to the transaction have staff available to resolve any issues on trade date, for example ensuring confirmation timeliness?
- Are there additional impacts to other processes e.g.
 - o margin/collateral practices: for instance, would it be possible to post margin on the same day as the margin call has been calculated?
 - o capital: for instance, how could the capital allocated for Settlement Risk be optimised?
 - o liquidity: for instance, are liquidity profiles expected to change as RTGS operating hours extend, and will operational and business tools may be expected to change too?

Recommendations

Recommendations for Supervisors and RTGS Operators

1. Coordinated Central Bank activity to:
 - o identify and develop opportunities to increase the overlap of RTGS operating hours, noting that this may be through earlier opening or later closing times; and, o lead discussions on the concept of Settlement Date.
2. That supervisory guidelines promoting the management of FX Settlement Risk consider the technical evolution of the wider market and help promote the interoperability of solutions.
3. A focus on activity-based regulation/supervision to ensure that standards are maintained for new and existing market participants.

Recommendations for the Industry

1. That further analysis is performed to understand the benefits that increased PvP can have across the full FX value-chain and the dependencies (including legacy systems) which may limit/enhance such benefits.
2. That there is coordinated effort on providing new PvP solutions, followed by coordinated migration, thus creating an immediate networked benefit.
3. The promotion of interoperability between those solutions which result in the same outcome, in the case of this paper the outcome being increased PvP settlement.

In addition, we would like to recommend the following wider considerations:

- Market participants should be able to determine when and how they settle their transactions to meet both their commercial needs and the provision of liquidity. This choice will depend on many factors, not least the speed at which the participants to a transaction can adopt any new markets technologies or increased RTGS operating hours. Such timed payments could become a more frequent occurrence within the settlement cycle, enabling better risk management whilst requiring specific liquidity considerations, new market infrastructures, standards and/or tools. For example, will new intraday standards be required to calculate interest claims for late payments?
- Adoption by participants of extended operating hours will be incremental, including central banks.
- In house technologies often require periods of downtime (e.g. to roll-out updates or require batch processes to run. It is not yet clear how these processes will be accommodated as operating hours increase and will require further thought by policymakers and the industry alike.

Finally, whilst this Consultation is assessing the extension of RTGS systems' operating hours, we believe the implications of such extensions will result in the same considerations should the market adopt stablecoins or central bank digital currencies. These new technologies are likely to result in instant, 24/7 settlement on a PvP basis and we note that our previous point on a Global Settlement Date is equally relevant when discussing the use of stablecoins or central bank digital currencies

3. What benefits for cross-border payments other than speed do you perceive would accrue from an extension of RTGS operating hours? What additional domestic benefits for a jurisdiction do you perceive?

The key benefit for the wholesale FX market will be the reduction in Principal (Settlement) Risk, as also referenced by the CPMI in this Consultation.

4. How well do the three identified end states capture key scenarios that individual central banks /RTGS system operators should consider as they assess current RTGS operating hours and plan for the future? What additional end states or refinements to the end states would you suggest?

For wholesale FX, we believe that end state 1 is more achievable in the near-term and will have fewer dependencies with respect to delivery.

Once end state 1 has matured and proven to add value then we would recommend an evolution to a 24-hour settlement operating model.

A slow evolution will enable freedom for market participants, including central banks, to develop at their own pace. It would also allow the wider industry to discuss and propose solutions to issues such as the different time-zones (i.e. calendar days) between jurisdictions.

We also believe that such an approach will enable new products and services to evolve which could help achieve the desired goal of reducing Principal Risk within the wholesale FX market.

Finally, it is not clear at this time if 24/7 settlement is required. For example, the proposed changes to the working week in some Middle Eastern countries, aligning to more global markets with a Saturday/Sunday weekend could reduce the more immediate requirement for 24/7 operation. Although we note that the development of new technologies and a shift in the demographics of market participants could result in the future demand for the 24/7 settlement of wholesale FX transactions.

5. Which end state, out of the three identified or another one you may want to consider, do you believe strikes the best balance between improving cross-border payments and managing the associated challenges?

As we note in Question 4, we suggest that end state 1 followed by a slow evolution to 24-hour settlement would be preferable.

It is not clear to us at this stage, given the level of interdependencies across the global wholesale FX market, how the market will actually migrate to end state 3, noting this would require all market participants, including central banks, to change their processes and technologies. End state 2 does not appear to offer any immediate benefits.

Regarding data, the Bank of International Settlements (BIS) reported in their last *Triennial Central Bank Survey of FX Turnover*⁹ that six currency pairs (USD/EUR, USD/JPY, USD/GBP, USD/AUD, USD/CAD and USD/CNY) comprise nearly 61% of the daily turnover. A different initial approach may be to focus only on the central banks for these currencies instead of the full list of jurisdictions included within the Consultation. Such an approach may enable a more nimble and therefore quicker time-to-market solution to be identified, assessed and rolled-out for use. We also noted that some of the analysis within the Consultation included markets which are restricted in nature and do not permit physical settlement of currencies offshore¹⁰.

6. If the RTGS system in your jurisdiction has not yet reached the end state signalled in the previous question, what time horizon (number of years from now) would you envision for reaching it?

The GFXD is not responding to this Question.

7. As a result of end state 3, which involves 24/7 RTGS operating hours, do you anticipate demand for 24/7 operations of RTGS systems in the future? If so, what do you expect to be the main drivers and over what time horizon do you expect this to happen?

Given the desire to reduce Principal Risk within the global wholesale FX market, the desire to leverage 24/7 settlement will be determined on the availability of a suitable cost-effective mechanism which enables PvP.

⁹ https://www.bis.org/statistics/rpfx19_fx.pdf

¹⁰ <https://www.emta.org/>

As we note in Question 4 above, it is not clear that 24/7 settlement is required at this time. However, the development of new technologies and a change in the demographics of market participants may mean that an evolution is desired.

8. Would your organisation make use of and/or benefit from extended RTGS operating hours?

Feedback from our members suggests that the wholesale FX market would use extended RTGS operating hours.

9. How useful do you view the global settlement window as a concept for considering the aggregate implications of extensions to RTGS operating hours in individual jurisdictions? What alternatives or refinements, if any, would you propose in order to consider the aggregate implications of extensions to RTGS operating hours in individual jurisdictions?

Whilst the analysis in the paper considers the operating hours of multiple RTGS systems, it does not seem to consider the current specific country level operating/access requirements, for example in Japan there are different cut-off times for domestic and international settlements¹¹. Given this will drive the practical ability to settle, we suggest that this is also factored into any CPMI analysis.

Within the global settlement window, there is an overlap of the current CLS¹² settlement cycles and the proposed operating hours of the global settlement window. Given the important role played by CLS in managing Settlement Risk within the global FX market, we suggest that as there are already considerable payments being made during the CLS settlement cycles, that the global settlement window is further extended either side of the CLS settlement cycles to enable liquidity to be managed more optimally.

At this time, it is not clear what the implications of the proposed global settlement window would be on the provision of liquidity, but the proposed operating hours would appear to create a liquidity concentration with additional pressures on the individuals performing associated support functions.

We would prefer to further assess the implications of moving to a Global Settlement Date which may enable liquidity to be managed throughout a standardised period rather than requiring additional concentrated periods of activity.

10. To what extent have the operational and risk considerations related to an extension of RTGS operating hours been adequately identified? What additional considerations would you consider relevant?

As noted in Question 2, we have previously assessed operational and risk considerations in our 2020 paper on Extending PvP Settlement¹³.

During this assessment we identified a series of typical post trade processes and then assessed if they would be impacted by an extension to RTGS operating hours:

¹¹ https://www.boj.or.jp/en/paym/outline/pay_boj/pss1212a.pdf

¹² <https://www.cls-group.com/>

¹³ <https://www.gfma.org/wp-content/uploads/2020/03/expanding-pvp-opportunities-march2020.pdf>

Table 1: Generic FX post trade processes

When	What	Impacted by RTGS extension?
Value Date (VD)	Non- PvP transaction matching and confirmations	Likely
VD	Non- PvP net and gross settlements	Likely
VD	Intra-day controls and reconciliations	Likely
VD	Intra-day liquidity management	Likely
VD	Final checks prior to cut-off	Likely
VD/VD + 1	Regulatory reporting	Likely
VD	EOD batch processes: ledgers and statements	Likely
VD+1	Nostro reconciliations/EOD statements	Likely
VD+1	Use of funds	Likely

We are not aware of further impact analysis of the above functions and would strongly advise that market participants perform further and detailed analysis to identify which time dependant processes are impacted, what the impacts are, and whether these impacts are offset by the benefits of extended settlement opportunities.

We also identified 2 overriding considerations:

- Personnel: Do market participants have the right staffing model and skills in the right location(s) to accommodate a change to RTGS operating hours, especially if a follow-the-sun model is deployed?
- Network effect: It is likely that some market participants will be ready to accommodate extended RTGS operating hours before others and it is therefore necessary to expect some sort of staggered adoption by the market.

Additionally, in Question 9 above we note that there are further considerations, including the provision of liquidity and note the potential liquidity ‘crunch’ between the well-established CLS obligations and those required under the proposed global settlement window.

11. What would you identify as the top five considerations related to an extension of RTGS operating hours in your preferred scenario (Q5)?

As referenced above, we support coordinated action to reduce systemic Principal Risk within the wholesale FX market. Whilst an extension of RTGS operating hours is a positive development, there are certain other requirements which will help achieve success:

1. There should be an effective mechanism to allow PvP settlement of both currencies in a transaction.
2. There should be a suitable network of participants, i.e. the PvP mechanism needs scale.
3. Participants should be allowed choice in settling their transactions to meet their own (commercial) needs, and this could include the provision of bilateral and multilateral netting.
4. There could be impacts on other asset classes, for example the Repo markets may be required to operate front to back across their value-chains for longer hours.
5. Operational risk is a key consideration, and we recommend further analysis to identify where issues could arise and propose suitable mitigants.

12. To what extent do the relevant considerations differ substantially depending on the end state being considered?

Regarding the wholesale FX market, feedback from our members suggests that these considerations will be the same irrespective of the proposed end-state. Of course, there are many other risks and considerations which must also be assessed, including those we have identified above in Questions 2 and 9.

13. For the top five considerations that you identified in Q11, what mitigation measures could be taken to address them?

We suggest that further detail analysis is first performed before any specific regulatory actions are taken. An initial suggestion could be for a private/public sector roundtable to workshop these technical questions in order to identify and discuss potential resolutions.

14. In your view, to what extent will the above measures require coordinated action by industry participants and/or support/guidance from authorities, such as central banks, standardsetting bodies and supervisors (as opposed to actions by individual stakeholders)?

The wholesale FX market is typified by the vast numbers of participants and the varied technical sophistication of those participants. Any changes to today's processes will require a very coordinated and public sector supported effort to achieve change. The impacts should this not occur are difficult to predict, but there could be value in identifying potential scenarios and subsequently engaging in public/private sector dialogue to discuss.

For example, we believe dialogue on the creation of a Global Settlement Date would be best led by the public sector, however, would first require centralised detailed analysis, in collaboration with the industry to understand the wider implications on other asset classes and existing legal/business conventions.

15. If you are a stakeholder of an RTGS system that has extended its operating hours in the recent past, what were the key lessons learnt?

The GFXD is not responding to this Question.