SWIFT response to CPMI Consultative report on Facilitating increased adoption of payment versus payment (PvP)

Introduction

SWIFT would like to thank the CPMI for its consideration of our earlier response to the call for ideas, and inclusion of some of our remarks in the recent PvP consultative report.

In this short paper, we would like to provide broader thoughts and comments, to help CPMI and the community progress their thinking and achieve the stated objective around payment versus payment (PvP). We remain available for questions or further information around any aspects of the issues outlined below and look forward to continuing our dialogue.

Causes of non-PvP settlement

SWIFT carries most of the $6.6 Tn daily FX value, counting FX bilateral confirmations, CLS flows and the related cross-border payments. Over time, we have seen the industry increase the level of automation and electronification, with a wide use of MT300 standard messages and ISO 20022 for CLS, reducing overall risks and leveraging a strong correspondent banking network, especially as demand for emerging market currencies has increased.

SWIFT has a long-standing practice of market coordination and community dialogue. As part of our instant and frictionless strategy, we have recently engaged into a series of customer conversations on FX industry drivers. During these conversations involving our top FX users, we explore pockets of inefficiencies and sources of operational risks in the FX space, for trade and post-trade processes, for wholesale FX activities as well as FX as a component of a payment, a securities or a trade transaction. Non-PvP settlement is a recurring challenge, together with the lack of visibility and transparency on FX settlement, which make liquidity management, and forecasting, relatively complex.

In the current market context, with tighter access to liquidity and increase of interest rates, our community is concerned about liquidity being mobilised unnecessarily, either due to lack of transparency on latest balance or due to earmarking and pre-funding mechanisms that may not be adequate. Optimising the use of liquidity is more and more critical for our users, across markets and segments, and we recommend finding the right balance between cost of liquidity, settlement finality and protection again potential risks.

While this is a continuous dialogue, that we will keep facilitating over the coming months, we acknowledge the causes identified in your report and that lead to non-PvP protection. While trades handled by CLS for all CLS eligible currencies carry very limited (if any) settlement risk, not all emerging market currencies benefit from the same efficient mechanisms. Optimising the use of liquidity in these markets becomes fundamental as they need to reduce settlement risk. A possible way forward could be reducing the need of liquidity, by netting multilateral positions across these emerging market currencies. CLS could act as a central 'utility' to achieve this, leveraging its current role and expertise. The re-usability of Swift messaging would then ensure secure and reliable message exchange, in addition to further reduction of the total cost of ownership at the user side.

Increasing adoption of PvP

Focusing on solving transparency and settlement finality challenges for non-CLS currencies will certainly help reduce FX settlement risk. In this context, we would like to highlight the tremendous efforts made recently by the global transaction banks to solve some of these limitations at cross-border level.

The adoption of SWIFT's gpi (Global Payments Innovation) by more than 4,000 financial institutions in more than 200 countries, has helped improve the speed, visibility and transparency of cross-border payments, with about $240 billion payments credited to the end beneficiaries within 5 minutes every day. The gpi tracker capability provides full visibility on the status of a transaction to all participants in the chain and allows them to take appropriate actions, especially to enhance liquidity management.

With our new SWIFT Platform, due for release in late 2022 and available to all users, SWIFT will add even more payment orchestration capabilities. Synchronisation of the settlement of two separate transactions could be a new functionality to support reducing PvP settlement risks.
In addition to these recent investments, we believe that the industry is already operating under best practices that can help accelerate further adoption of PvP, such as standardisation and harmonisation of communication flows and data exchange, and underlying infrastructures, be it for FX trade confirmation or FX settlement.

Reducing the settlement and counterparty risks induced by non-PvP transactions has become a significant issue for the financial industry to tackle, as the number of these transactions increases. We will keep engaging with our community to explore what other initiatives (e.g. synergies between gpi payments tracking and FX trade confirmations) could help the financial industry solve this pressing challenge.

We urge both the public and the private sectors to maximise the leverage of such current and future investments to tackle causes of non-PvP settlement. Any new solution emerging should be interoperable natively and future-proof, in a context of greater RTGS interlinking and continuous exploration of digital currencies.

About SWIFT

SWIFT is a global, member-owned community cooperative and the world's leading provider of secure financial messaging services. Our financial messaging platform, products and services connect more than 11,000 financial institutions and include market infrastructures and corporate customers in more than 200 countries and territories. We serve about 6,000 users active in the Foreign Exchange business.

SWIFT also provides robust, reliable, and secure financial messaging solutions to more than 235 payment, securities and treasury market infrastructures globally. This includes more than 80 domestic high value payment systems or RTGS communities re-using SWIFT infrastructure for domestic payments as well. We also support global FMIs like CLS, and many regional FMIs like TARGET2 in EU or BUNA across the Gulf Cooperation Council.

As the registration authority for ISO 20022, we are also committed to creating global standards, and support local market practice creation to ensure streamlined financial information flows across borders.

We relentlessly pursue operational excellence and continuously evolve our global network in line with our vision for instant, frictionless end-to-end transactions. We remain committed to streamlining end-to-end transaction flows, promoting interoperability between market infrastructures and other community members, and reducing friction and fragmentation in cross-border transactions with the application of a harmonised set of solutions, services and standards.

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