POSITION PAPER

WSBI-ESBG response to CPMI consultative report on facilitating increased adoption of payment versus payment (PvP)

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WSBI-ESBG welcome the opportunity to provide their views on the topic of Facilitating increased adoption of payment versus payment (PvP).

Questions for consultation

<u>In Section 2:</u>

1. Do you agree with the analysis of the causes of non-PvP settlement?

Yes, we agree: PVP arrangements should be available to both counterparties, fit for purpose and efficient. Price differences are still not considerable between PvP and non-PvP settlement and there are still sufficient preauthorized credit lines in place.

2. Do you find that, for your market segments, some causes are more important than others? Please explain.

One of the main causes is that the majority of "home currencies" (CEE) are not yet eligible for PvP settlement (like CLS). Otherwise (according to our main principle) we would settle also such currencies in CLS with PvP. Overall, availability for both counterparties and efficiency are the most important characteristics that PvP agreements must have.

3. In which currency pairs or products do you find that non-PvP settlement is increasing?

Depending on the traded volume, in our opinion higher volume will lead to higher non-PvP settlement (especially in CEE currencies). In regard to products, we believe FX Spot and FX Forwards business as well as FX Swaps could lead to higher non-PvP settlement. Overall, we notice a higher increase in EUR/PLN, EUR/MAD, and EUR/CNY.

<u>In Section 3:</u>

4. Do you agree with how the proposals for new solutions could increase the adoption of PvP?

In general, we agree that the variety of proposed new solutions would increase the adoption of PvP arrangements. However, we would prefer **one** system that is open to "all" main currencies with focus on CEE and possibility to settle T+0, especially valid for settlement of higher volumes. Among these, we consider the usage of already existing standard procedures as the best option (no technical accounts – instead use of existing nostro accounts). This would make implementation and reconciliation easier and consequently cheaper.

5. Do you find that these new solutions, together, if launched successfully, can mitigate FX settlement risk? Please explain.

Every successfully implemented solution that relies on PvP Settlement is able to mitigate and reduce FX settlement risk, as it would avoid non-payment of one currency after the other has been settled. However, the success of a solution will heavily depend on the usage of already existing standard procedures, technical environment, and simplicity of the solution. Moreover, it should be considered that many FX operations are linked to commercial activity that await the receipt of funds in a currency in order to meet those obligations.

Nevertheless, as already pointed out, **one** system would be preferred.

In Section 4:

6. Do you agree with the analysis of the barriers to increased adoption of PvP?

Yes, we agree with the analysis. In our opinion the most important barriers are the missing currencies and still the problem with the time zones –> this leads to intraday credit risk (in order to keep value dates, settlement member has to pay far-east currencies before receiving i.e., USD). Additionally, we would like to point out that for smaller banks it is difficult to find a settlement agent/member that takes over this risk to a reasonable price.

7. Which barriers do you find most significant, and do you observe any additional barriers that are not identified in the report? Please explain with specific reference to individual barriers.

The most significant barriers are probably those in the private sector connected with the alignment of nostro operating hours and operational processes for reconciling balances at end of day. It is necessary to establish automatic reconciliation processes and have 24/7 availability.

8. Do you agree with the possible roles for private and public sector stakeholders in addressing the barriers?

Yes, particularly with the consideration of extending and aligning RTGS hours of operation in support of PVP arrangements. We consider that the more participating members the better the functioning of the system.

9. Do you find that the private sector could take on other roles in facilitating increased adoption of PvP? Please explain.

No.

10. How could the public and private sectors work together to take this forward? Please explain and suggest any practical actions that could be taken by existing industry bodies.

If local central bank could grant access for smaller local banks to PvP settlement systems to a reasonable price (pricing below that of commercial banks, just covering the effort) this would increase usage substantially. This would also require some further optimisation of the clearing between central banks.

About WSBI (World Savings and Retail Banking Institute)

Founded in 1924, WSBI brings together savings and retail banks from 64 countries, representing savings and retail banks worldwide. WSBI focuses on international regulatory issues that affect the savings and retail banking industry and provides a platform for knowledge exchange between member banks. Its aim is to achieve sustainable, inclusive, and balanced growth and job creation. Supporting a diversified range of financial services to meet customer needs, WSBI favors an inclusive form of globalization that is just and fair. It supports international efforts to advance financial access and financial usage for everyone. WSBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It, therefore, fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed, and inclusive financial institutions.

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About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 17 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, which together employ 659,797 people driven to innovate at 47,198 outlets. ESBG members have total assets of €5.7 trillion, provide €1 trillion in corporate loans, including to SMEs, and serve 162 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking.

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