

Foreign Exchange Settlement Risk and the International Payments System



Jeff Marquardt
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Agenda

- Background
- Central Bank strategy
- Responses
- Current Situation and Issues
- Looking Forward



Background

- Bankhaus Herstatt failure in 1974
- Central bank collective work
 - Payment system issues
 - Supervisory issues
- Key BIS Reports
 - Angell Report: 1989
 - Lamfalusy Report: 1990
 - Noel Report: 1993
 - Allsopp Report: 1996
 - Basle Committee Guidance on FX Settlement Risk: 2000



Central Bank Strategy

- Action by individual banks
 - Measure exposures
 - Apply appropriate credit controls
- Action by industry groups
 - Private sector approach
 - Develop well-constructed multi-currency services
- Action by central banks
 - Encourage timely, market-wide progress
 - Enhance national payment systems



Responses

- Greater focus on risk
- Bilateral netting
- Attempt to establish central counterparties
- (ECHO, Multinet)
- Enhanced national payments systems
 - Design (RTGS systems, secure intraday credit)
 - Rules (finality)
 - Hours of operation
- PVP payments systems (CLS)



Current Situation and Issues

- Trades still outside CLS or other risk-reducing systems
 - Volume?
 - Reasons?
- State of bank risk management
- Broader perspective on key settlement risks
- Interdependencies among institutions and systems



Looking Forward

- Results of new CPSS survey
- Continued attention by central banks
- Evolving trading mechanisms and implications for settlement
- Evolving settlement practices
- Cross-currency liquidity management practices