

transforming global foreign exchange markets

e-FOREX

SPRING 2023

FX Clearing: Unlocking the potential and exploiting the benefits



A supplement published by e-Forex magazine with the support of:

LCH AN LSEG BUSINESS

QUANTILE
An LSEG Business

TRADENEXUS



We'll provide sure footing for your FX clearing

With \$2.7 trillion of open interest,* the
efficiencies of LCH ForexClear are endless.

For more information, visit **lch.com**

LCH AN LSEG BUSINESS

*As of 1 May 2023

Publishers Information

Susan Rennie
Susan.rennie@sjbmedia.net
Managing Editor

Charles Jago
charles.jago@e-forex.net
Editor (FX & Derivatives)

Charles Harris
Charles.harris@sjbmedia.net
Advertising Manager

Larry Levy
Larry.levy@sjbmedia.net
Podcast Manager

Michael Best
Michael.best@sjbmedia.net
Subscriptions Manager

David Fielder
David.fielder@sjbmedia.net
Digital Events

Ingrid Weel
mail@ingridweel.com
Photography

Charlie Dewey
info@redbackdesign.net
Web Manager

SJB Media International Ltd
Suite 153, 3 Edgar Buildings, George Street,
Bath, BA1 2FJ, United Kingdom
Tel: +44 (0) 1736 74 01 30
Tel: +44 (0) 1736 74 11 44 (e-Forex ed & sales)
Fax: +44 (0)1208 82 18 03

Design and Origination:
Matt Sanwell, DesignUNLTD
www.designunltd.co.uk

Printed by Headland Printers

Membership enquiries
Access to the e-Forex website is free to all
registered members. More information
about how to register can be found at
www.e-forex.net

To order hard copies of this publication
or for more information about membership
please call our subscription department.

Members hotline: +44 (0)1736 74 11 44

Although every effort has been made to
ensure the accuracy of the information
contained in this publication the publishers
can accept no liabilities for inaccuracies that
may appear. The views expressed in this
publication are not necessarily those of the
publisher.

Please note, the publishers do not endorse
or recommend any specific website featured
in this magazine. Readers are advised to
check carefully that any website offering
a specific FX trading product and service
complies with all required regulatory
conditions and obligations.

The entire contents of this publication are
protected by copyright and all rights are
reserved.

SJB
Media International Limited

Spring 2023

FX CLEARING: UNLOCKING THE POTENTIAL AND EXPLOITING THE BENEFITS

A supplement to
e-FOREX

CONTENTS:



P6 Introduction

FX Clearing: A market still in its infancy but with enormous potential



P8 Market Commentary

What's being done to encourage more adoption and improve the experience of FX Clearing?



P11 Case Study

Enhancing and expanding the global FX clearing ecosystem with the forthcoming launch of LSEG's innovative NDF Matching platform



P12 Product Spotlight

FX Smart Clearing



P14 Technology Perspectives

Technology in the FX clearing process: Perspectives from the buyside



P16 Provider Profile: LCH Forexclear

Viewpoints from the leading provider of OTC FX clearing services



P18 Provider Profile: Quantile

Talking to a remarkable multilateral optimisation service provider which is looking to reduce the size, risk and complexity of the derivatives market.



P20 Provider Profile: Tradenexus

Discovering more about this award-winning innovator focused on driving efficiencies within the post-trade FX workflow.



P22 Conclusion

FX Clearing: A future full of promise



P23 More Information

Contributor contact details

TRADE NEXUSSM

Bringing together a community of FX market participants to **drive efficiencies within the post-trade workflow**



Matching / Confirmation

Automated trade matching, enrichment and confirmation messaging



Gross/Net/CLS Settlement

Multiple settlement types supported through tailored rules management



SSI enrichment

Enrich trades with locally stored SSIs and use broker published instructions for enhanced STP



Custodial & Third-Party SWIFT Messaging

Real-time SWIFT messaging to custodians, agents and counterparties



CLSTradeMonitor

Transparency into CLS workflow with a consolidated view across custodians



Clearing Connectivity

Submit and manage FX transactions for central clearing within a single platform



Trade Optimization

Providing asset managers with access to identify optimization opportunities, automate their compression and novation workflows, and consolidated monitoring.

TradeNeXus is an award-winning* platform with innovative solutions to help clients navigate the ever-changing post-trade landscape.

* FX Markets Asia Awards, Best FX post-trade provider 2021, 2022 & 2023. TabbFORUM's Nova Award for innovation 2023.

STATE STREET

www.tradenexussolutions.com

This communication is provided by State Street Global Markets International Limited ("SSGMIL"), or, where applicable and permissible, its bank and non-bank affiliates ("State Street"). SSGMIL is authorized and regulated by the Financial Conduct Authority. This communication is intended for general marketing purposes and is intended only for professional clients or eligible counterparties or their equivalent. Products and services described herein may not be available in all jurisdictions or through all State Street entities and may only be available to certain users of TradeNeXusSM, FX Connect MTF[®] (which is registered with the Financial Conduct Authority as a multilateral trading facility (MTF)), or certain other State Street services. Activities described herein may be conducted from offshore. Information provided is of a general nature only and has not been reviewed by any regulatory authority.

This communication is not intended for retail clients, nor for distribution to, and may not be relied upon by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to applicable law or regulation. This communication or any portion hereof may not be reprinted, sold, or redistributed without the prior written consent of State Street. This communication and the information herein does not constitute investment, legal, or tax advice and is not a solicitation to buy or sell securities, derivatives or any other financial products or services, nor is it intended to constitute any binding contractual arrangement or commitment by State Street to provide securities, foreign exchange, derivatives or any other services. Certain foreign exchange business, including spot and certain forward transactions, may not be regulated in all jurisdictions. Past performance is no guarantee of future results.

FX Clearing:

A market still in its infancy but with enormous potential

James Pearson, Head of LCH ForexClear, responds to a few questions about the current state of FX Clearing and how LCH has been broadening its product offering to meet the opportunities that the uncleared market presents.



James Pearson

requirements of banks' FX portfolios. FX clearing provides potentially lower margin requirements than the bilateral space, offers capital optimisation opportunities through multilateral netting, materially lowers counterparty risk and has settled-to-market (STM) benefits, alongside the operational benefits that come with facing a central counterparty clearing house (CCP). LCH has a strong reputation as 'The Markets' Partner' and has robust risk and margin models that protect our members and clients during periods of market stress.

In 2022, LCH ForexClear saw record total service volumes for the 10th year in a row, driven by strong participation in cleared deliverable and non-deliverable products. The service cleared \$24.8 trillion in total notional, up 14% versus 2021, with \$95 billion in average daily volume (ADV). This momentum has continued into 2023, with Q1 being a record quarter for both our FX options volume, which was 146% higher than Q1 2022, and for client clearing volume, which was 83% higher than Q1 2022.

What effect have those factors had in shaping the FX clearing services available today?

LCH ForexClear initially offered members and clients the ability to clear their NDF portfolios and, subsequently, their members' deliverable FX options via the deliverable service. Demand to clear these products originated from a requirement to post bilateral initial margin (IM) under UMR, with clearing ensuring IM requirements netted efficiently against one counterparty rather than multiple ones in the bilateral space.

More recently, banks wanting to better manage their SA-CCR obligations have found clearing to provide notable benefits here too. At the same time, LCH ForexClear offers portfolio margining across products, thus further enhancing margin and capital savings.

The next step in our product evolution has been to respond to our member requests to continue to see leverage ratio (LR) and risk-weighted asset (RWA) improvements by clearing their deliverable forwards portfolios. This has entailed a need to balance the IM requirements with the capital benefits achieved. We would not expect our members to want to clear the entirety of their FX forward portfolios for this reason – instead, clearing in a selective way to minimise IM requirements while maximising capital savings. This is how we have developed our Smart Clearing offering, as we discuss with Quantile in this supplement. We aim to continue the development of deliverable forwards clearing, ensuring that members can clear in a way that suits their aims and technology infrastructure.

We also know that clients would like to access a scalable deliverable forwards clearing offering in the future, and we would expect this to be made available to the client base following the member offering. Over time, we expect FX clearing to become 'business as usual' for many market participants, and with more clearing occurring at trade execution, we expect pricing differentials for cleared versus uncleared trades to become evident, as we have seen in the interest rate swap markets.

What were your expectations regarding how long it would take for FX clearing to reach wide adoption across the industry?

This is still a market in its relative infancy, with huge immediate future potential, as momentum is now building. The Over The Counter Non-Deliverable Forward (OTC NDF) market is now clearing 18% of daily volumes via our 19 members and 60 clients, and we continue to work with this network to increase the number of clearing connections among them. We also expect to welcome several new members to the NDF service this year, the first in five years, and to maintain the growth in new client numbers that we experienced in Q1 this year. The new NDF Matching platform*, launching in Q4 of this year, will bring NDF clearing to the pre-execution part of the trade lifecycle for the first time, creating further opportunities and attracting new clearing participants and liquidity. And we still have additional currency pairs to add and other geographical locations to establish ourselves in.

FX clearing is not mandated as it is in the interest rate swap market, and therefore, it must be commercially compelling. Changing the way a market operates

(in terms of market convention, infrastructure and technology platforms) takes time, but the foundations have now been laid. However, numerous current and prospective participants are asking us to be even quicker, given their desire to leverage the efficiencies that clearing brings.

Currently, we are seeing month-on-month and quarter-on-quarter records in our FX options volumes as part of our deliverable service. We have seen some of the largest FX banks increase their cleared flow and actively cleared currency pairs, and several additional banks are preparing to go live with FX clearing in Q2 2023. We delivered our portfolio margining initiative in Q1 this year, meaning there are now margin offsets between our deliverable and non-deliverable products, providing our members with further benefits.

The next development in our deliverable offering will be the launch of Smart Clearing and our multilateral bulk load capability with direct connectivity to optimisation providers. While both forwards and swaps are eligible for clearing today, we have partnered with our members and market providers to create a workflow that aids our members in selectively clearing their FX forwards and swaps portfolios – we call this Smart Clearing. Securing this workflow will allow our largest members to optimise their capital more efficiently, increase the liquidity in the service and enable us to reach out to the next tier of banks in H2 2023 and beyond.

We have a strong two-year membership pipeline focusing on sell-side participants who have both margin and capital drivers incentivising them to clear and are currently executing the first stages of that pipeline delivery. We are aware that segments of the buy-side are also ready to clear, and we are continually looking to expand the number of trade sources into LCH ForexClear and partner with providers who sit in various stages of the client clearing journey to ensure we can enhance and improve it.

Overall, the uncleared FX market remains enormous, and that is our opportunity - but we remain confident from the momentum we are seeing and the numerous drivers for FX clearing, such as the operational and counterparty credit efficiencies and multilateral netting, that we are on the path to a turning point. More product equals more benefits, which equals more participants, which equals more volume, which equals more benefits and more participants. By broadening our product offering (from NDFs to FX options to FX forwards) and expanding our customer base, we are accelerating towards that market tipping point. 2025 is when we think this virtuous clearing circle will really start to form, so watch this space!

*Workflow that NDF Matching will offer is subject to regulatory approval.

Industry Engagement:

What's being done to encourage more adoption and improve the experience of FX Clearing?

Buyside and sellside adoption of FX clearing currently differs significantly. Sarah Billingham, Head of FX Specialised Sales at LCH ForexClear, and Kah Yang Chong, Acting Head of State Street TradeNeXus, offer some comments about this divergence and how FX clearing might evolve in the future for both groups.

The current landscape

From a sellside perspective, a number of drivers are affecting FX clearing, although they originally emanate from the margin requirements associated with Uncleared Margin Rules (UMR) and the associated benefits of netting margin requirements of a portfolio against a single counterparty. More recently the focus has switched to capital and sellside participants have become increasingly focused on how clearing can reduce risk weighted asset (RWA) requirements and improve leverage ratio (LR) calculations. Each bank has a nuanced focus in these areas, but all have a fundamental requirement to manage associated costs of both margin and capital. With \$15 million in margin and capital savings realised annually, on average, per LCH ForexClear Member Group, the benefits of clearing are obvious. LCH ForexClear, clearing almost 20% of the NDF market (as a % of BIS 2022 volumes), now represents one of the largest counterparties in the NDF market – the netting benefits are therefore substantial and continue to grow.

Other less quantifiable drivers also come into play around access to both broader market liquidity and a variety of counterparties that may not have previously been available, as well as aiming to improve trading capabilities, market presence and operational efficiency.

On the buy-side, the situation is rather different. Unlike rates or credit derivatives, which have mandatory clearing, G20 regulators took a different approach to FX in relation to UMR. Under UMR, the buy-side has to assess the relative benefits of clearing versus bilateral counterparty exposures and costs. "This assessment depends on a variety of factors, including margin savings, workflow considerations and counterparty requirements," says Kah Yang Chong, Acting Head of State Street TradeNeXus. "These factors impact each buy-side firm differently, based on the complexity of their operations, directionality and size of portfolios, and counterparty relationships."

This approach has meant that buy-side adoption of FX clearing will typically take longer, and the infrastructure that supports the ecosystem will evolve over time as client requests feed in. Recognising clients' strategic requirements for a clearing workflow solution, State Street TradeNeXus has built out a clearing workflow to LCH ForexClear and now actively supports both cleared and bilateral workflows within a single application. The voluntary nature of buy-side FX clearing means that TradeNeXus buy-side clients are able to opt to adopt clearing within the platform seamlessly for any of their funds for which it is beneficial to clear.

Enquiries and interest from clients are increasing post-UMR Phase 6 as they continue to evaluate their options. In 2022, State Street TradeNeXus supported the FX clearing of the first ever Japanese asset manager at LCH ForexClear. This achievement demonstrates the success of the TradeNeXus partnership approach with clients.

NDFs and other hurdles

One area where buy-side adoption of FX clearing has been particularly cautious is the related workflow, as asset



Sarah Billingham



managers have a strong preference for retaining existing operational models relating to post-trade allocations, confirmations and matching. Therefore, the consequent need to minimise change when adding support for a new workflow has led State Street TradeNeXus to build out the clearing workflow to complement clients' existing use of TradeNeXus for bilateral workflows.

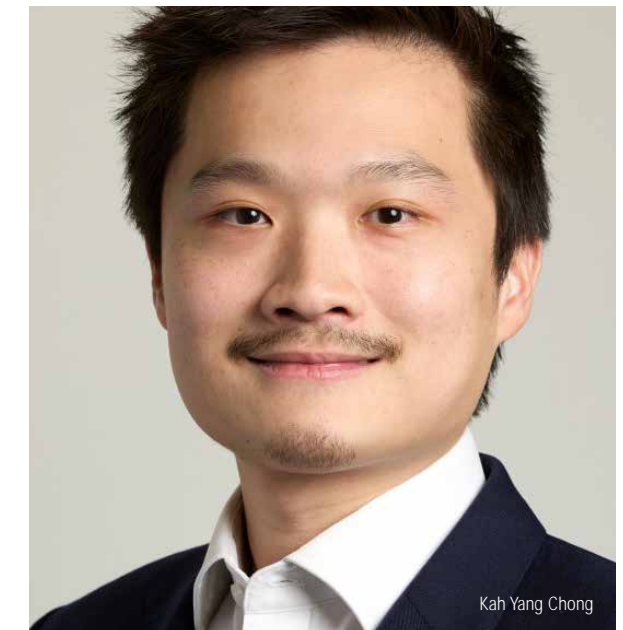
"Another significant hurdle to clearing adoption has been the lack of clearing features within the client's OMS that enable them to determine whether or not a trade should be cleared," says Kah Yang Chong. "Without this, the process of clearing is highly manual and operationally risky."

By utilizing TradeNeXus's proprietary rules engine, clients can make a determination as trades are sent to the system, on whether they should be cleared or not based on settings at fund, currency and counterparty level. This provides the flexibility and positive outcome for clients who use either TradeNeXus's scalable integration solutions, or integrate directly via their OMS. Finally, by operating a single platform for FX post-trade, clients are able to utilize the TradeNeXus dashboard to monitor, on an exceptions basis, all their FX activity across bilateral and cleared trades, alongside their settlement statuses and custodian messaging.

Streamlining, standardising and reducing costs

LCH ForexClear is also strongly cognisant of the need to enhance the buy-side's FX clearing experience. The forthcoming launch of NDF Matching¹ (treated in more detail in the case study following this article) represents the first pre-trade 'intent to clear' NDF execution venue.

Execution to clearing and the post-trade transaction journey for the buy-side is fundamental to greater adoption. Buy-side firms do not have the middle office, support and settlement functions that banks have built up, and so the focus needs to be on automation and STP, as far as possible. The recent progress by some of the buy-side online trading platforms (such as FXall's Settlement Center, Bloomberg and, of course, FX Connect's TradeNeXus platform) to incorporate a clearing journey into their settlement functionalities has been a positive development for buy-side firms, considering how clearing could fit into their risk management activities. The ability for order



Kah Yang Chong

management systems to consume clearing messages and data is similarly important.

Dealing with volatility

Recent stress events such as the pandemic, economic sanctions on Russia and increasing interest rates have given FX clearing providers an opportunity to assess the robustness of their solutions. In the case of ForexClear this has highlighted the stability and resilience of its margin model. Crucially, it also demonstrated that it provided sufficient protection for its members and their clients.

LCH ForexClear's model has also demonstrated its resilience through market uncertainty and volatility, owing in large part to the anti-procyclicality buffer embedded in the margin model that ensures margin is not returned too quickly through periods of low volatility and not increased suddenly through period of high volatility. The introduction of portfolio margining in Q1 2023 has allowed more diversification benefits in the IM model, providing greater protection from margin requirement increases due to individual risk factor idiosyncrasies. This anti-procyclicality nature of LCH ForexClear's model ensured clearing members were not required to post large amounts of collateral following an increase in volatility – something not necessarily true in the bilateral/prime brokerage space.

The pandemic posed specific problems beyond market risk, particularly for operational resilience and business continuity. "With a successful transition to remote working, disaster recovery has been drastically improved, providing more stability to our members and their clients," says Loic Moreau, Head of Risk & Operations at LCH ForexClear. "The pandemic also posed the question of whether a default could be managed virtually; a few swift procedural updates ensured that this could be implemented and has been successfully simulated since – providing more tools and improving resilience in the event of a default."

Buyside counterparty relationships

Periods of market volatility, such as those outlined above, further underline the need for providing the buyside with flexibility and choice. Consequently, many on the buyside have been engaging with their counterparties to ensure FX clearing workflow support is available to them on their buyside post-trade platform of choice. Platforms such as State Street TradeNeXus are designed specifically to support asset managers' unique needs, and the buyside continues to lead the way in evolving the FX clearing ecosystem by requesting that counterparties match and clear transactions on platforms such as TradeNeXus.

However, whilst FX clearing provides a critical utility for managing counterparty credit risk, settlement risk and other benefits – such as reduced margin and exposure – execution is still largely relationship-driven in the OTC

FX market. Buyside clients continue to focus on best execution metrics from providers such as BestX to manage their execution through FX Connect with their key counterparties. "This is why it has been so critical to provide the asset management community with a post-trade 'election to clear' mechanism that allows them the flexibility to obtain the best pricing from their chosen banks and then opt which funds or positions to clear post trade," says Kah Yang Chong. "FX remains very different from rates, so the solutions that TradeNeXus provides to its client base have to fit seamlessly with their existing workflows and not disrupt the rest of their ecosystem."

Conclusion

Looking ahead, it seems apparent that any continued periods of market stress will encourage market participants to look to clearing as a protective solution. LCH ForexClear fully appreciates that under these circumstances the protection of its members is the highest priority. Elsewhere, firms already embedded in the clearing ecosystem clearly wish to clear a broader range of currencies and tenors. To that end, LCH ForexClear extended the tenor of its G10 and BRL NDFs to five years and has plans to add additional higher-volume crosses – EUR/BRL, JPY/BRL, EUR/CNY – into the service. A broader product offering would also ensure a more complete clearing solution for firms at which workflows are standardised. Additionally, portfolio netting benefits (from both a capital and liquidity perspective) can be leveraged across the entire FX product suite.

The clearing decision-making process will need to be more flexible and shift towards becoming a pre-execution decision, where firms could optimise their outcomes by choosing the elements of their FX portfolios they wish to clear, with the market ultimately moving towards a differential price for cleared trades. To this end, the ecosystem needs to expand, with the volume of each new entrant bringing new opportunities for existing participants and with all participants being able to clear against each other, on a currency-by-currency basis, in an easy and increasingly automated and instant fashion.

From a buyside perspective, this improved ecosystem will also need to include support from OMS and service providers to help drive increased buyside adoption of FX clearing. More specifically, any pricing differentials or counterparty preferences in NDFs that develop between cleared and bilateral trades could also play a big role in the buyside adoption of clearing. As the interbank market for NDF transactions is now generally cleared, further opportunities to optimize with asset managers will continue to be assessed by market participants. To this purpose, State Street TradeNeXus will continue to evolve and innovate its offering in partnership with buyside asset managers to cater for their operational and workflow needs.

¹ Workflow that NDF Matching will offer is subject to regulatory approval.

Enhancing and expanding the global FX clearing ecosystem with the forthcoming launch of LSEG's innovative NDF Matching platform

The growth of the NDF market has seen a steady increase in the volume of trades being novated to clearing, but this is predominantly performed as a post-execution exercise. As a result, the clearing journey can be onerous and ultimately prohibitive for some participants that want to make the most of the benefits that it brings. LSEG has a significant opportunity to utilise the strengths within the Group, bringing LCH ForexClear and LSEG FX Matching together to launch NDF Matching¹ in October 2023. This will offer a unique and streamlined workflow, combining the benefits of anonymous execution, all-to-all liquidity, as well as the multilateral counterparty risk netting benefits of facing a CCP on a cleared-only central limit order book, (otherwise referred to as a 'CLOB'), an exchange style execution venue that matches all bids and offers according to price and time priority. LSEG expects that spreads in NDF pairs traded on the new venue will compare favourably to those achieved through bilateral execution as UMR and SA-CCR impact more participants.

NDF Matching is being launched in Singapore, as the first phase of LSEG's initiative to re-platform its FX trading venues onto the same technology that powers the London Stock Exchange, with full support from the Monetary Authority of Singapore (MAS).

Lim Cheng Khai, Executive Director of the Financial Markets Development Department at MAS said, 'LSEG's decision to launch cleared NDF Matching in Singapore underscores Singapore's position as a price discovery hub. As a leading interdealer platform, LSEG's venue is a key addition to our FX ecosystem and will play an important role in meeting Asian market players' growing FX needs.'²

This will not only raise the profile of FX clearing, with only LCH ForexClear members and clients being able to access the platform, but should also more explicitly highlight the economic, operational and credit efficiencies that clearing brings to the market, which will ultimately lead to a differentiated price or

preferential execution journey. The associated margin and capital benefits should become apparent to all.

To trade on the venue, all participants will be required to be onboarded at LCH ForexClear, either as a direct member or as a client that will clear through a designated clearing broker. A pre-trade credit check will occur on the venue, which will provide greater clearing certainty at execution and simplify the workflow. However, no credit capacity or documentation is needed to face other participants. A direct connection between the venue and LCH ForexClear will reduce touch points in the workflow and provide real-time updates and confirmations to all participants. Inserting LCH ForexClear as the CCP will maintain anonymity and provide participants with access to a broader liquidity pool, from a wider selection of counterparties, than would otherwise be available via bilateral execution. As a result, the expectation is that there will be interest from a wide selection of market participants.

The launch of NDF Matching will be the first step in re-platforming LSEG's FX venues, FXall and Matching onto common core technology – Millennium. Millennium powers the London Stock Exchange and Turquoise trading, and is LSEG's proven cross-asset trading platform technology. A common core technology platform will improve system performance, increase trading efficiency, introduce new trading capabilities, and allow traders to benefit from easier API integration and end-to-end FX workflow capabilities via Refinitiv Workspace. The development of NDF Matching is in response to Asian customer demand, which highlights LSEG's commitment to the region, and the location of the service in Singapore is designed to minimise trading latencies in Asia. NDF Matching should help to not only push the market to further electronification but to also offer clearing as a real choice at execution, which ultimately benefits all participants.

¹ Workflow that NDF Matching will offer is subject to regulatory approval.

² <https://www.lseg.com/en/media-centre/press-releases/2022/lseg-launch-new-ndf-matching-venue-singapore-support-strong-demand-asia-market>

FX Smart Clearing

Andrew Batchelor, COO & Head of Product at LCH ForexClear and Esben Urbak, Head of Product at Quantile outline some of the key features of the FX Smart Clearing project.



Andrew Batchelor



Esben Urbak

PRODUCT SPOTLIGHT

What is FX Smart Clearing, and what issues influenced the decision to develop it?

AB: FX Smart Clearing was developed as a solution to help banks optimise their capital usage, reduce counterparty risk, and improve operational efficiency through selective clearing of FX forwards and swaps. The decision to develop it was driven by feedback from market participants, influenced by the regulatory changes to the Standardised Approach for Counterparty Credit Risk (SA-CCR) and the Capital Requirements Regulation (CRR) that imposed stricter capital requirements on banks for bilateral OTC derivatives trades. FX exposures were particularly impacted by the introduction of SA-CCR.

How does FX Smart Clearing help to solve many of the capital challenges of SA-CCR, and what other benefits does it deliver?

AB: FX Smart Clearing helps to solve many of the capital challenges of SA-CCR by enabling banks to clear their FX forwards trades through a CCP, in an optimised fashion, ensuring reduction in financial resource requirements. This reduces the SA-CCR exposure, lowering capital requirements versus equivalent bilateral positions, for both risk-weighted assets (RWA) as well as the leverage ratio (LR) calculation. In addition,

FX Smart Clearing provides several other benefits, including reduced counterparty risk, operational efficiency, multilateral netting, increased opportunities for trade compression and increased access to liquidity.

What have been some of the key milestones on the FX Smart Clearing journey so far?

EU: There have been several significant milestones in the Optimised Backloading and FX Smart Clearing journey to date. The first milestone was the successful collaboration between LCH ForexClear and Quantile in realising the potential of the service and developing the proposed solution. Significant work went into seeking feedback from the industry and designing the specs, data flows and outputs before we were ready to engage members and clients for the first proof-of-concept (PoC) run. The delivery of this run was the next significant milestone, and it generated a compelling case for the service and its ability to meaningfully reduce capital requirements for all participants. Since then, milestones have included another successful PoC, with increased benefits and work on further enhancements to streamline the process. We look forward to continuing the FX Smart Clearing and Optimised Backloading journey with a live service in due course.

How does Quantile's Optimised Backloading service help to facilitate FX Smart Clearing?

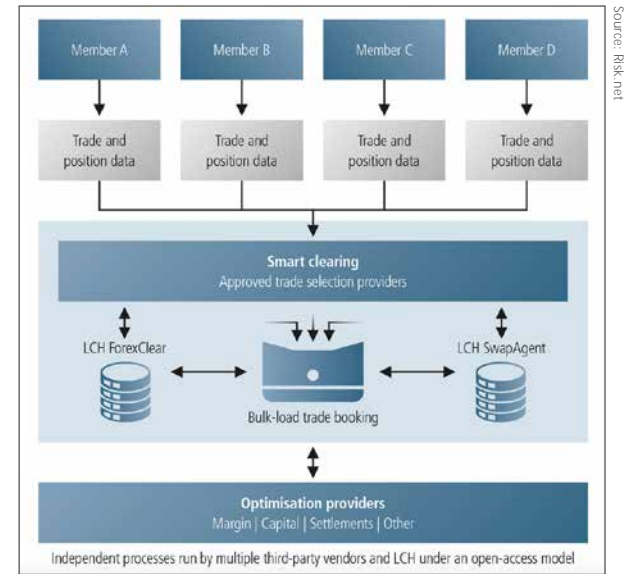
EU: Quantile's Optimised Backloading service is a key component of FX Smart Clearing, as it delivers the optimal solution for participants by selectively moving existing uncleared trades into the clearing house and putting on new risk, which optimises the participant's financial resources (margin and capital). This approach ensures trades are not blindly backloaded but, instead, are intelligently selected to reduce risk and minimise the resources banks must hold. Optimisation can be customised to suit each participant's exact requirements – they can choose their maximum risk change, maximum resource change, currency pairs traded and trading partners. With the help of Quantile's algorithms, the backloaded portfolios can also be compressed to significantly reduce trade count and notional. The service is operationally efficient and includes full STP booking.

LCH ForexClear recently partnered with Quantile to deliver the first proof-of-concept (PoC) runs for FX Smart Clearing with a third party. What were the results?

EU: Further to the initial PoC run in late 2022, which successfully demonstrated the potential of the service, in February 2023, we delivered the latest PoC with 19 participating entities. Results were very positive, demonstrating that the service can significantly reduce counterparty risk and improve capital efficiency for participants. They showed an average 51% improvement in capital reduction without increasing IM significantly – a metric that has the scope to increase to greater than 70% as the clearing network and eligible products grow. \$2.7 trillion of notional was identified for backloading, of which 71% could be further compressed. Feedback from participants has been very positive, with most looking to build infrastructure to connect to the live service in the coming months.

A vital component of the FX Smart Clearing project is an enhanced trade registration process at LCH ForexClear. Please tell us more about that.

AB: The enhanced trade registration process allows Approved Trade Selection Providers (ATSPs) to submit pre-approved trade packages directly to LCH ForexClear. Margin requirements are then calculated on a net basis, allowing LCH ForexClear members to significantly benefit from pre-funding optimisation – if required. This solution provides an all-or-nothing process, avoiding a partial novation of recommended packages. The workflow is facilitated through MQueue connectivity and includes the use of standardised data fields and automated data validation checks to help remove the operational risks and costs associated with current standard trade booking and clearing processes. Post



FX Smart Clearing in action

approval of a run, participating banks will be notified directly with Financial Product Markup Language clearing confirmation and optimisation run reporting.

Please talk us through the product road map for FX Smart Clearing and what the next developments are likely to be during the course of this year.

AB: The next step in FX Smart Clearing is to schedule a production trial run, which we are planning for mid-June 2023, with a few banks that have shown interest to work through initial production runs. Then in August 2023, subject to appropriate regulatory notifications, our full-scale technical release will allow banks to clear in bulk, which should continue to improve the capital savings. Looking ahead and as seen in the recent Quantile PoC, FX Smart Clearing should be able to yield greater benefit from increased FX options (and NDF) clearing volumes, given a larger pool of risk. Further out, the expansion of the service to support additional currency pairs and extended maturities is planned for Q1 2024, subject to regulatory review. Banks interested in FX Smart Clearing should be getting in touch with us now, so as to plan for their build to the service.

What are your expectations regarding future enhancements to FX Smart Clearing?

AB: Future enhancements to FX Smart Clearing are likely to focus on improving operational efficiency, widening the product scope and increasing network participation, driving further potential for capital reduction, and increasing access to liquidity through clearing. Additionally, ongoing collaboration with banks and other stakeholders is expected to drive further innovation and adoption of the service – this is the power of the LCH ForexClear network!

Source: Risk.net

PRODUCT SPOTLIGHT

Technology in the FX clearing process: Perspectives from the buy-side

As firms pay increasing attention to mitigating client portfolio cost impact, FX clearing and the advances that technology brings to the process are becoming important and generating interest amongst more buy-side firms than ever before. But what efficiencies can technology actually deliver?

While no regulatory mandates regarding central clearing exist, new regulations are making it an efficient solution for a portion of buy-side portfolios. These changes have been a while in coming.

Kah Yang Chong, Acting Head of State Street TradeNeXus, GlobalLink's Post-Trade platform explains, "The 2008 financial crisis highlighted the need for greater transparency within the OTC derivatives ecosystem. Since then, significant scrutiny has been placed on financial participants' operational processes to increase the accuracy, timeliness, and transparency of transactions and their statuses. State Street TradeNeXus supports a

scalable workflow solution that provides efficient and transparent post-trade confirmations and matching processes for both cleared and bilateral transactions."

Efficiency is the key word here. Evaluating transaction risk between participants involves optimising IM and directing trades to the most risk-efficient places possible.

Improving efficiency and overcoming traditional hurdles

While the need for technology that automates more portions of the clearing process has been apparent for a while, a few hurdles have prevented adoption. Specifically, automating asset managers' requirements while integrating processes into their complex workflows has been challenging.

Chong points to ease of onboarding as a critical factor any service provider must offer. He explains the approach State Street TradeNeXus has adopted. "As part of our technology implementation, we built the clearing workflow to be compatible with the client's existing integration into State Street TradeNeXus, whether through our scalable integration solutions or directly via client's OMS," he says.

While onboarding is a major pillar in easing adoption, reducing client risk that results from having positions in multiple places is another critical concern. For instance, the CCP and the uncleared space have different margin rules. Specifically, determining the most efficient way of holding those positions given varied margin rules is a significant value-add.



Kah Yang Chong

"In addition to trade-level clearing determination," he continues, "clients can utilise our TradeNeXus-proprietary rules engine which allows clients to make a determination on whether to clear or not based on their settings at fund, currency, or counterparty level." This provides flexibility for clients to deliver on different ways to hold positions given their portfolio exposures and margin rules.

While TradeNeXus' solutions are multilateral and offer a streamlined process for all market participants, the buy-side's needs tend to be more acute. From an operational standpoint, meeting these needs aren't materially different from those on the sell side. Analysing data and transferring it to clients, communication, and seamlessly executing trades in an automated workflow are critical. APIs offer a great solution in this regard, linking systems and offering clients insights into their risk and the ability to download data for further analysis.

Chong highlights these features when asked for examples of technology powering TradeNeXus' ability to boost operational efficiency. "As part of the clearing process, clearing-eligible FX derivatives undergo real-time eligibility, margin, and risk checks," he says. "Through the use of newer technologies, this allows us to send requests for clearing to the CCP, who then undertake risk checks and provide clearing statuses, all in real-time."

He goes on to explain that once the trade is cleared all parties are notified, and relevant books and records are automatically updated, including custodial messaging. "For any trades that are rejected, full transparency on the rejection reason is provided," he says. "This eliminates the need to communicate with the counterparty to identify the reason and improves the speed at which issues are identified and resolved."

Scaling to achieve cost savings

Initial funding costs, specifically initial margins, determine the returns on a trade. Reducing or optimising the amount of IM clients have to post is a key part of the broader push to increase clearing efficiency. As such, scaling is the best solution to reducing costs in these processes.

Chong explains that State Street TradeNeXus' technology is built with scale in mind. "The underlying technology that supports our application has been built to process scale and complex workflows," he says, "which has allowed clients to partner with us to manage their post-trade activities front to back."

What do these partnerships look like? Chong lists a few use cases. "Rather than building their proprietary system, clients can partner with us to utilise our



Automating asset managers' requirements while integrating processes into their complex workflows has been challenging

exceptions-based matching platform. Clients who wish to utilise further post-trade optimization tools can use the partnership products State Street TradeNeXus has built with CLS and Capitois. The CLS partnership provides clients with CLSsettlement monitoring capabilities within our application and the Capitois partnership allows clients to undertake compression and novation post-trade seamlessly within our application."

Further evolution

What other developments can we expect to see in the clearing space? Desktop interoperability will likely improve and firms will undoubtedly rely on technology even more moving forward.

Chong believes increasing transparency between back and front office teams will continue to grow in importance, something State Street TradeNeXus is trying to solve. "They may be looking at different datasets whilst solving a common problem, which may include FX clearing workflows," he says. "Our GlobalLink Digital (GLD) platform provides a single front-end for our clients to interact with multiple applications. This allows their data from different applications to work together to provide better decision-making, all within a single dashboard."

Clearing has always been a central topic in FX, and thanks to technological advances, it seems set to continue to occupy the spotlight.

LCH ForexClear

Viewpoints from the leading provider of OTC FX clearing services

LCH ForexClear delivers unmatched capital and operational efficiencies, including the flexibility and choice of both US and European clearing models. LCH ForexClear launched in 2012 and was developed in partnership with market participants, with a primary objective to offer global currency markets a dedicated service for clearing FX products, primarily in response to the uncleared margin rules (UMR) implemented post the 2008 financial crisis. More recently, capital efficiency under SA-CCR has further increased demand for clearing, given the benefits it provides. We spoke to its CEO James Pearson to discover how the service it offers has since expanded and what's behind the dramatic growth in its cleared volumes.

What range of clearing services does LCH ForexClear now offer?

LCH ForexClear offers participants the ability to clear non-deliverable and deliverable portfolios in a wide range of the most traded FX currencies – 25 non-deliverable forward currency pairs (15 Emerging Market and 10 G10 pairs) and eight deliverable currency pairs clearing in FX spot, forwards, and options – with additional benefits realised by cross-margining across these portfolios. Physical settlement of deliverable FX products (FX options and associated hedge trades) is supported through a collaboration that utilises the CLS infrastructure.

Members and clients have access to an online margin simulation tool which provides detailed yet digestible analyses that highlight the impact of clearing a portfolio on future margin requirements. When members and clients are onboarded, they will have the ability to perform a range of functions to optimise their cleared portfolios – for example, portfolio transfers and risk-free compression. FX clearing is supported by a wide range of margin, trade and collateral reporting to suit individual needs, and participants have access to a Client Services team with 24-hour coverage across APAC, EMEA and the Americas.

Where are you seeing the growth in interest in FX clearing?

Focusing on sell-side participants first, there is a wide and varied selection of interest in clearing at this time. Typical demand and the highest volume, of course, stems from the banks. Given that the largest international banks are broadly clearing their entire portfolios of clearing eligible NDFs to optimise both margin and capital, we are now seeing interest in clearing NDF portfolios from jurisdiction-specific players, with the greatest focus from Singaporean,

Indian and Korean banks. Additionally, there is increased engagement from a wider geographic footprint, including Germany, Spain, the US, Australia, Canada and Scandinavia. Even though each sell-side participant may have different capital and margin constraints, all are also starting to understand the operational and counterparty credit benefits that a CCP can offer by removing any counterparty risk they would have against their bilateral counterparties and netting their exposures against a single counterparty, with a much lower risk weight.

When we consider the concept of deliverable forwards clearing, we see interest from a much wider set of banks, given the size of the market. We are already actively clearing vanilla FX options with a selection of our bank members, with volume growth doubling by the end of Q1 2023 versus end of 2022. Having the ability to clear deliverable forwards at scale, in an optimised, or selective fashion, will likely be the point at which FX clearing becomes far more widespread.

Moving to the buy-side, the largest driver for NDF clearing at this point is managing UMR requirements to post initial margin (IM) for larger FX derivative portfolios. Instead of posting IM with multiple counterparties, liquidity and margin can be managed more efficiently by collapsing these margin requirements against multiple counterparties into one single net amount with LCH ForexClear. Equally, a flexible clearing approach can be used to manage the IM threshold requirements dictated by UMR rules. Any trades cleared do not count towards AANA calculations either, making clearing a useful tool in managing UMR thresholds.

Buy-side participants are not obligated by the capital rules that banks adhere to, but of course, they are the recipients of associated pricing impacts passed on by their banks. Clearing ensures that buy-side transactions are not

contributing to bank capital costs, and pricing can be negotiated as a result.

What new products and services are you now focusing on developing and delivering?

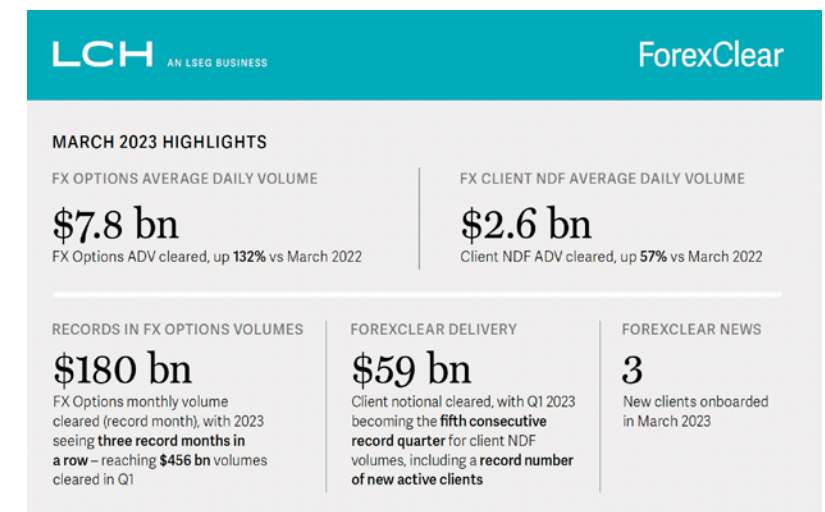
In consultation with our members, LCH ForexClear is always looking to add or enhance new products and services that can provide our members and clients further efficiency and flexibility in managing currency risk. We are actively working on several exciting new projects that are set to significantly enhance the service. In parallel, LCH ForexClear is working closely with CLS to make the clearing-to-settlement journey more efficient for all, streamlining the settlement process, as well as reducing barriers to entry and operational inefficiencies.

FX Smart Clearing – As already discussed, this initiative will allow members to benefit from both the expertise of third-party optimisation providers and the substantial benefits clearing FX forwards can offer for capital reduction, yielding the most efficient portfolio for resource management. FX Smart Clearing will enable our members to realise the maximum benefits through settled-to-market (STM) variation margin (VM) classification, multilateral netting and the lower counterparty risk weights associated with clearing.

NDF Matching* – LSEG FX will be launching NDF Matching in Q4 2023: a CLOB cleared-only venue, with all executed trades novating to LCH ForexClear.

Currency and tenor expansion – LCH ForexClear is planning to expand the range of currencies and tenors that are eligible for both our deliverable and non-deliverable services. This wider scope will allow for improved portfolio optimisation possibilities achievable through clearing. This project also has scope for non-CLS currencies, including CNH.

LCH ForexClear Margin Calculator – LCH ForexClear continues to



improve its margin calculation tool, with several enhancements planned for the GUI, including new functionality for intraday simulations and compression, and plans to introduce a REST API in 2023.

Overall, we are committed to delivering innovative and efficient solutions that meet the evolving needs of our members and clients in the rapidly evolving FX market. We are excited about the development of these new products and services and look forward to bringing them to market soon.

LCH ForexClear sees itself as the stronghold in centrally cleared OTC FX markets, with risk management central to everything you do. Please tell us more about that philosophy and some of the state-of-the-art safeguards you have designed to protect your clearing members and their clients as well as to maintain the stability of the global financial system.

Risk management is at the core of everything we do at LCH ForexClear. Even before we agree to admit a new entity as a clearing member, we ensure it has the capabilities to meet our exacting risk management standards. That philosophy runs right through every step of the clearing process.

LCH ForexClear's expert risk management service is built across

various pillars, each maintained and governed by the most stringent of criteria. Focusing on risk models in the first instance, these state-of-the-art risk models ensure that the right blend of quantitative and qualitative judgment is used, to protect cleared trades and collateral posted alongside them. Given the markets we clear, LCH ForexClear models are designed and calibrated to cover a wide array of risks, for example, from global crises to the idiosyncrasies of individual Emerging Market economies whose currencies we clear.

From an operational and resilience perspective, we remain open and accept trades 24/5.5, providing real-time decisions on the collateral efficiency of trades submitted to clearing. Our change process is efficient yet robust, with a widespread Quality Assurance programme that minimises disruption events for our members and clients.

LCH ForexClear is highly regulated and regularly scrutinises and reviews its own processes and models. This recurring self-reflection, coupled with a continuous improvement philosophy and active engagement with global regulators, ensures LCH ForexClear constantly evolves to better serve its members and their clients, as well as supporting the stability of the global financial system.

*Workflow that NDF Matching will offer is subject to regulatory approval.

Quantile

Talking to a remarkable multilateral optimisation service provider which is looking to reduce the size, risk and complexity of the derivatives market.

Quantile, now part of London Stock Exchange Group, is a market-leading optimisation provider that reduces counterparty risk, notional and capital requirements to increase the efficiency and liquidity of derivatives markets, improve returns for clients, and make the financial system safer. We asked the firm's CEO, Andrew Williams, to tell more about the products and services this innovative and fast growing company offers, especially for FX.

PROVIDER PROFILE



Andrew Williams

Andrew, what types of firms are part of Quantile's extensive optimisation network and what challenges are you helping them to deal with?

Since launching our first services in 2017, we've built a really solid network of participants globally, including all of the largest dealer banks, plus many regional banks, buy-side firms and other large institutional participants. We're also increasingly working with clearing brokers / FCMs so we can reach more participants and increase the network effect of the services.

We founded Quantile to help manage counterparty risk and steer the industry towards a healthy steady state. It can be challenging for participants to juggle regulatory obligations, such as IM, and capital requirements, such as SA-CCR, with delivering healthy returns – we help by reducing risk and optimising portfolios so they are easier, and cheaper, to maintain.

Please tell us about the key services that Quantile offers?

We currently offer three key services at Quantile, with more innovations in the pipeline.

The first is our multilateral interest rate compression service which reduces gross notional and trade count while preserving the risk profile and valuation of a portfolio. It cleans portfolios to make them more efficient – and frees up valuable capital that would otherwise be held unnecessarily.

The second is where we're working with a lot of FX market participants – our counterparty risk optimisation service. This service simultaneously reduces cleared and uncleared

initial margin and risk-based capital requirements under SA-CCR and IMM.

Finally, we've been working closely with LCH ForexClear to deliver an FX Optimised Backloading service that facilitates Smart Clearing. The service will enable participants to selectively move existing uncleared trades and risk into the clearing house which optimises financial resources, including IM and capital.

How does Quantile's multilateral counterparty risk optimisation service actually work?

The service works by analysing the risk of transactions between participants and rebalancing portfolios with new market risk neutral trades. Participants upload their data via API or our portal and set their constraints, which allows them to tailor the optimisation objective. We then run our algorithms and generate an optimisation proposal which contains the set of new market risk neutral trades. The proposal is then validated and accepted by participants and the new rebalancing trades are booked,

thereby reducing counterparty risk, capital requirements and the cost of funding IM.

The service is multilateral and has a network effect. We've already delivered several record-breaking IM runs – and results will continue to improve as the network grows.

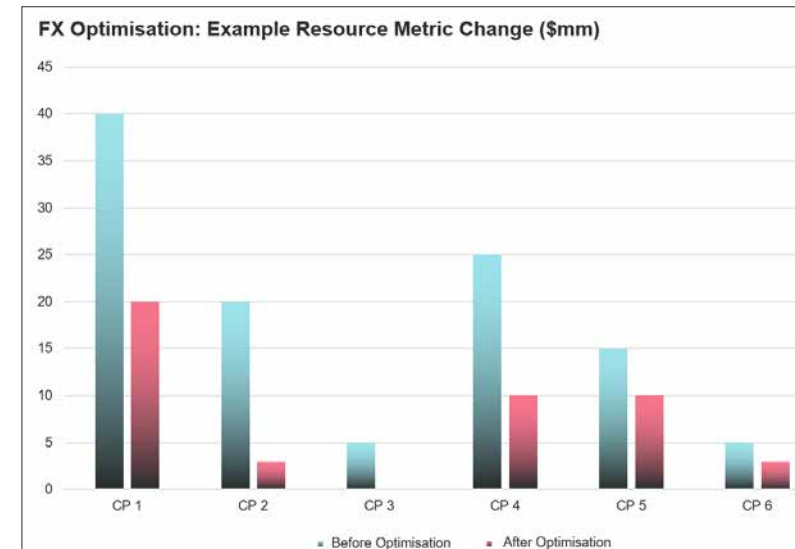
Why has Quantile been seeing increased demand for its Counterparty Risk Optimisation service and what sort of reductions in FX have you been delivering?

Demand for the service has pretty consistently increased since launch. Things like increasing margin costs and heightened counterparty risk during periods of market volatility tend to increase participation, but overall we've experienced consistent growth. We're seeing a lot more demand from buy-side firms and regional banks as they look to mitigate the impact of the uncleared margin rules, and since new capital requirements have come into force, we've also seen more participants adopt the capital component of the service which can target SA-CCR, IMM and large exposures. We see this as a big area of focus going forward.

In terms of reductions – we often reduce margin and capital requirements for FX participants in excess of 50% and have delivered what we believe to be the market's largest IM runs for FX.

Prolonged periods of extreme volatility after the initial outbreak of covid in 2020 put the spotlight on collateral and margin optimisation. Is that still the focus today?

Regulatory initial margin isn't going anywhere and as demonstrated in ISDA's latest Margin Survey, margin postings continue to rise. So margin optimisation will continue to be a key optimisation objective for



Quantile and participants globally. However, we're looking at the broader picture which includes the impact of capital and the cost of maintaining portfolios. A really impactful way to reduce funding costs and improve efficiency is to move risk into the clearing house or hold uncleared risk at SwapAgent. Participants can then access greater netting opportunities, reduce their risk and capital requirements and benefit from standardised infrastructure and processing. Our optimisation runs can sweep risk into these venues today, and we expect more participants to leverage this functionality within our services going forward.

Quantile pioneered multilateral initial margin optimisation for FX in 2017. What steps have you been taking to enhance your multilateral services to make post trade risk reduction even more efficient?

We built our processes to be very operationally efficient and our runs take place during the day within a five hour window. We have all the necessary third-party connectivity (such as obtaining data directly from Acadia) and support STP trade booking. We also offer an API, which can automate the entire run process from sign-up to sign-

off, removing unnecessary manual intervention.

To ensure the optimisation results continue to increase, we are focused on extending the network by onboarding new participants.

How excited are you about the opportunities that the FX market presents for Quantile over the next few years?

Given the importance and size of the global FX market, we believe it's essential that participants have access to services that can help to reduce unnecessary counterparty risk and the associated costs to create more efficient portfolios, increase returns and reduce systemic risk. We started that journey back in 2017 but there is much more that can be done. We're very excited by the role we can play working with our clients to deliver solutions that tackle these challenges and see huge potential for future innovation as the FX landscape and regulatory requirements evolve.

We're also excited by the opportunities to work with our colleagues in LSEG to deliver solutions that work across both cleared and uncleared portfolios, such as the Smart Clearing initiative with LCH ForexClear and LCH SwapAgent.

PROVIDER PROFILE

TradeNeXus

An award-winning innovator focused on driving efficiencies within the post-trade FX workflow.

TradeNeXus is a part of GlobalLink's suite of market-leading e-trading platforms, technology, data and workflow solutions from State Street. TradeNeXus brings innovative solutions to its clients and provides straight-through processing, operational efficiencies and settlement risk reduction. TradeNeXus recently won the "Best FX Post-trade Provider" in the FX Markets Asia 2023 awards for the 3rd year in a row, and the platform was recognised as part of State Street's TabbFORUM Nova 2023 award. We asked Ben Lancaster, Head of TradeNeXus Product, to outline some of the key features of the service it offers particularly for FX clearing.

built to drive efficiencies and add value across clients' workflows, by providing automation and straight through processing across the platform, as well as building innovative solutions to solve client and market issues.

At TradeNeXus, we recognise the importance of partnering with innovators in the post-trade space to help bring new tools to market, delivering more automated solutions for clients to create efficiencies. We strive to make our solutions seamless for clients to adopt, all of our add-on services; Clearing Connectivity, Trade Optimization and CLSTradeMonitor, can be utilized with minimal uplift for buy-side clients.

The complexities and nuances of the FX market has over time driven bespoke post-trade workflows and numerous manual processes. The TradeNeXus community helps clients manage with these complexities and to drive efficiencies in an ever changing landscape.

Under State Street's GlobalLink umbrella, the TradeNeXus community also consists of market leading products such

as FX Connect, BestX, Fund Connect, and Currenex to name a few. Global Link Digital has been launched to bring together post trade transparency next to execution venues, TCA and research analytics into a single user interface.

What are the core services that TradeNeXus offers?

TradeNeXus' core functionality is trade matching, confirmation and settlement messaging for foreign exchange (FX and FXO) and money market transactions. The platform offers consolidated multi-counterparty view of post trade activities within a single dashboard, including exception-based confirmation management workflow.

TradeNeXus' robust SWIFT messaging capabilities are at the core of this functionality. The platform automatically enriches custodial SWIFT messages with broker settlement instructions, whilst ensuring SSI accuracy through regular authentication of details through our broker published SSI database.

To provide clients with flexibility and customization, TradeNeXus is a rules based system which enables users to set-up tailored rules across the platform, such as on incoming trades, settlement determination and outgoing messages. The settlement workflow supports Gross, Net and CLS settlement, where corresponding SWIFT messages are automatically generated to custodians and agents. The asset manager focused netting functionality allows buy-side clients to create netting groups and agree the net figures with the sell-side.

How have you configured your Clearing Connectivity service so that it offers asset managers minimal disruption to existing trade operations and customised assistance with the adoption of FX clearing into their workflows?

TradeNeXus Clearing Connectivity is a workflow solution designed to help asset managers with the adoption of FX clearing. Asset managers are able to adopt our Clearing Connectivity service without the need for additional integration work, or changes to their incoming trade data. Multiple integrations have been enhanced to offer clients the ability to automatically route trades for Clearing, including our direct integrations with FX Connect and Charles River Development. At TradeNeXus, we try to maximise the client integrations that are in place and add more workflows that stem off those integrations, allowing our clients, where possible, to have one single integration.

Once the determination has been made to clear a trade, our integration with LCH will automatically send the trade for Clearing and provide clients with the clearing status in the TradeNeXus dashboard.

This STP workflow allows asset managers to seamlessly adopt clearing and incorporate it into their existing pre and post execution

workflow. There are no changes required to execution blocks; which means that cleared and non-cleared allocations can be executed together in netting blocks.

What are some of the key features and functionality of the Clearing Connectivity service?

One of the key benefits of Clearing Connectivity is allowing users to adopt the service with no additional integration or uplift, meaning no change to clients' core workflows.

Our Clearing rules engine allows clients to set-up tailored rules to determine whether a trade should settle bilaterally or cleared. The integration with LCH allows for real-time automated two-way connectivity with the CCP; to submit trades and display lifecycle status within the TradeNeXus dashboard, allowing users to monitor all bilateral and cleared trades in a single dashboard.

Once a trade is cleared, TradeNeXus will automatically send SWIFT messaging to clients' custodians with enriched clearing data. Additionally, the Clearing queue includes a full audit history with all incoming and outgoing messages, and well as allowing users to take action within the queue to facilitate an exception based workflow.

You have been collaborating with other leading industry players in the FX clearing space including an integration with LCH. What advantages is that bringing to users of TradeNeXus?

TradeNeXus is the first asset-manager focussed post-trade provider to provide FX clearing workflows. This integration with LCH provides TradeNeXus clients with a front to back ecosystem for managing bilateral and cleared trades. The STP access to LCH's Clearing Services, combined with LCH's connectivity to a large pool of Clearing and Executing Brokers facilitates the buy-side adoption of FX Clearing,

as clients look to utilise Clearing to manage counterparty risk and reduce initial margin requirements. The collaboration with LCH innovation ensures TradeNeXus continues to be at the center of the post-trade ecosystem, which continues to evolve as clients seek clearing and optimization workflow solutions, in light of UMR, SA-CCR and a greater focus on operational efficiencies.

What work are you doing to expand your portfolio of post trade FX services and solutions?

In addition to our Clearing Connectivity service, we've recently launched Trade Optimization in partnership with Capitolis and have worked with CLS to bring CLSTradeMonitor to TradeNeXus users. Our partnership with Capitolis provides clients with access to Capitolis' automated Trade Novation and Trade compression workflows. Combined with Clearing, our optimization offering enables clients to effectively manage the impact of both Uncleared Margin Rules, and SA-CCR. As asset managers are starting to see the impact of both regulations, we are seeing a need for clients to evaluate their post-trade workflow and an increasing focus on portfolio optimization.

CLSTradeMonitor provides clients with a consolidated view of the status of all trade instructions submitted to CLSsettlement across multiple custodians, in a single dashboard. This increases transparency for clients into CLSsettlement, allowing clients to monitor where there could be potential issues with and to better manage their settlement risk. It also removes the operational overhead of obtaining different reports across custodians, creating efficiencies in the post trade workflow for our clients.

These new services involve creating a consolidated view by bringing monitoring side by side with client's matching, messaging, and settlements processes, and allows clients to incorporate revolutionary new tools into their existing workflows.



Ben Lancaster

Please tell us a little about the TradeNeXus ecosystem and how you have brought together a community of FX market participants to drive efficiencies within the post trade workflow.

The TradeNeXus ecosystem consists of a variety of market participants across the FX workflow, from execution to settlement. The service connects to over 400 asset managers, 50 banking groups, 800 custodians plus a broad range of order management systems, technology providers and market utilities such as CLS, LCH, and Capitolis. This community has been

FX Clearing: A future full of promise

Conversations around FX clearing have gathered momentum recently, but much remains to be done before it becomes standard practice. A lot of development will naturally come from regulatory forces. James Pearson, Head of ForexClear at LCH lists a few regulatory drivers that might potentially turn FX clearing into an industry norm.

“The focus on clearing as a solution to UMR obligations, SA-CCR requirements as well as counterparty credit risk management and optimisation, has magnified the benefits of clearing and provided the impetus needed for continued and concentrated engagement from market participants,” he says. “We envisage this continuing with existing members and clients, as well as new ones.”

In many ways, the benefits clearing offers make it an obvious solution in the markets. As Pearson explains, “Market access, eradication of credit line constraints and, therefore, competitive advantage, require a cleared flow. Cost savings – whether from reduced funding from increased margin efficiency or the opportunity cost of capital – will become far more transparent, as the actual cost of trading will change. Clearing will also result in an enhanced bid-offer spread. Efficient markets dictate that clearing will improve pricing, and then the benefits of clearing will be visible to all in real-time.”

Despite these obvious benefits, implementing clearing will likely take some time. FX boasts a well-established infrastructure with deeply embedded workflows. New services have to take all these into account, lengthening the time to delivery. For their part, Pearson says that LCH ForexClear is highly ambitious, but is conscious of needing to take deliberate, incremental steps to achieve its goals.

“We are currently investigating expanding the currencies and tenors available for clearing,” he says. “Alongside this, we have ongoing work to allow us to offer a scalable deliverable forwards offering, first to our members and then to clients. We are doing this with a solution-driven mindset, ensuring that the product is not just available but also relevant. Clearing will therefore be selective, based on parameters that can be chosen by the clearing party to suit their needs and produce the optimal solution to their management of financial resources.”

He notes that the firm’s focus is implementing a deliverable forward solution before anything else. “We would hope to be able to follow deliverable forwards clearing with a possible cross-currency swap solution. At the same time, we are also always open to considering further new concepts, such as spot clearing, if it benefits the market,” he says.

While clearing is currently a post-trade activity, expanding its footprint to pre-trade activities will undoubtedly bring additional benefits. Pearson notes that LCH ForexClear’s long-term aims align with this view. “We are very focused on building a long-term clearing solution that is embedded in the market and in participants’ workflows, and we see engagement in the wider post-trade clearing offering as the key to establishing the broader footprint of the clearing ecosystem,” he says. “Equally, we are aware that we need to ensure that the clearing journey is as efficient as possible, minimises costs of doing business and really highlights the benefits of clearing to all, such that in time, the market develops a cleared versus uncleared price.”

And how would he increase confidence in clearing outcomes? “We need to embed the clearing decision-making process as the first step in the execution journey and in the wider market structure,” he answers. “This has to mean that trades are executed in the knowledge that they will be cleared. The first step on that journey, now that we have established the NDF interbank market cleared by LCH ForexClear, is to offer a pre-trade ‘intent to clear’ execution offering.”

Pearson notes that LCH ForexClear is partnering with LSEG FX to launch NDF Matching*, a pre-trade intent-to-clear central limit order book (CLOB) that will be the first to allow the market to determine a cleared NDF price. “We hope that we can participate in additional execution venues over time and expand the product types that can be priced on the basis of an intent to clear,” he says.

While time will tell how clearing progresses in FX, current developments undoubtedly point to a more sophisticated and efficient process shortly.

*Workflow that NDF Matching will offer is subject to regulatory approval.

More Information

For more information about this supplement or the contributors please contact:



Our team:
www.lch.com/services/forexclear/team

LinkedIn:
www.linkedin.com/company/lch-clearnet/

Contact us:
www.lch.com/contact-us

www.lch.com



About us:
www.quantile.com/about/

LinkedIn:
www.linkedin.com/company/quantile/

Contact us:
www.quantile.com/contact/

www.quantile.com



About us:
www.tradenexussolutions.com/about-us

LinkedIn:
www.linkedin.com/showcase/fx-connect/

Contact GlobalLink Sales Team:
sales@globalink.com

www.tradenexussolutions.com

An SJB Media International publication



Optimise your FX Portfolio.

We're on a mission to reduce capital & funding costs and improve efficiency in the FX market.

Our optimisation service can target cleared and uncleared margin and risk-based capital under SA-CCR and IMM simultaneously – with one run and one booking process.

We can also move risk into CCPs and LCH SwapAgent where it can be held more efficiently.

To join the network and get started, visit quantile.com.



QUANTILE
An LSEG Business