

# Reducing Risk in Foreign Exchange Settlement

A 2-day intensive course on Foreign Exchange Settlement Risk & its Mitigation

## Why you should attend

### Who Should Attend

The course has been specifically designed for all bank staff involved with;

- Foreign Exchange
- International & Correspondent Banking
- Payment Systems and Money Transfers
- Risk Managers
- Auditing & Compliance
- Payment Strategy
- Retail Banking Services
- Banking Product Development
- **Money Transfer Operators**
- **Foreign Exchange Dealers**
- **Risk Professionals**
- **Internal Audit**

**This course is for beginners and seasoned foreign exchange practitioners alike.**

*“.. despite significant progress, the potential consequences of a disruption in the foreign exchange settlement process remain considerable”*

*BIS Steering Group on Settlement Risk in Foreign Exchange Transactions - 2007*

It is just over a decade since central banks launched a major campaign to reduce foreign exchange settlement risk. That strategy was based on the belief that the private sector, in active cooperation with the public sector, had the power to control the foreign exchange settlement risk that first came into sharp focus at the time of the failure of Bankhaus Herstatt in 1974.

While much progress has been made over the past ten years, much still remains to be done.

In a recent progress report from the BIS, its Steering Group on Settlement Risk in Foreign Exchange Transactions, concludes that while encouraging progress has been made, specifically with the creation of the Continuous Linked Settlement (CLS) process, more needs to be done. While many individual banks and groups of financial institutions have greatly improved the way they manage their foreign exchange settlement exposures, many banks still do not manage their exposures appropriately and industry efforts have not yet realized their full risk-reducing potential.

This 2-day intensive course takes you directly into the world of Foreign Exchange Risk. Participants will gain a deeper insight into Foreign Exchange Settlement Risk, what it is and what is needed to control it.

**Citadel Advantage** offers an intensive 2-day course taught by experienced practitioners with extensive international and domestic payments experience. The course provides a comprehensive insight into all the aspects of foreign exchange settlement and its attendant risks. It is designed to assist financial institutions that want to improve their staffs' understanding of this important issue as well as develop the appropriate risk mitigation strategies.

# What is the curriculum focus?

## What the course covers

### An introduction into Foreign Exchange

- Currency principles
- Definitions
- What is Foreign Exchange and how does it work?

### What are the Risks?

- We examine a number of landmark bank failures which had brought foreign exchange settlement risk to the forefront. Case studies included are;
  - Herstatt Bank
  - Drexel Burnham Lambert
  - BCCI
  - Baring Brothers
  - The attempted Soviet coup d'état in 1991

### Managing the Risks - The 1996 Strategy

- The three "track" strategy which includes;
  - Individual Banks,
  - Industry Groups. and
  - Central banks.

### Development since 1996

- How the industry has implemented this strategy

### The 2006 Survey

- The Mathematics of Foreign Exchange Settlement
- Who uses which settlement methods

### The Present Situation

- How are key exposures defined & measured
- How this relates to the foreign exchange settlement process.
- The effect of payment system opening hours and time zones
- Present day exposure profiles

### As a case study we present a detailed analysis of a hypothetical foreign exchange portfolio

### Settlement Methods

- Traditional Correspondent Banking
- Bilateral Netting
- Continuous Linked Settlement
- On-Ups methods, and
- Other Payment Versus Payment (PVP) systems



### Continuous Linked Settlement (CLS)

- Because the CLS process is the most complex and the most notable of all the strategic tracks we examine CLS in detail.
- What CLS is and how it operates
- CLS' overall effect on the foreign exchange settlement risk position today

### Present Day Actions

- Publicity, education and communication
- CLS and other industry groups
- Supervisory measures
- Improvements to payment services

### The Future

- The strategy has produced some notable successes. However it has also shown itself to be vulnerable. We explore these vulnerabilities and examine the work that lies ahead.

For further details please contact

### Citadel Advantage

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