

“ The opportunities offered by using CLSSettlement proved advantageous for the bank and the business as it continues to promote meaningful banking in the Philippines.”

**Paul Robert Y. Murga**  
Executive Vice President, Operations Group Head  
Metrobank

1st

Philippine bank to access CLSSettlement as a third party, through UBS

80%

of processes are automated

CLSSettlement

**Metrobank became the first Philippine bank to access CLSSettlement as a third-party participant in February 2020, through UBS, a CLS settlement member.**

The Metropolitan Bank and Trust Company, commonly known as Metrobank, is one of the largest banks in the Philippines. Established in 1962, it offers a wide range of services to large local and multinational corporations, middle-market and small and medium enterprises (SMEs), high net-worth individuals and the retail segment.

As part of its efforts to comply with the FX Global Code of Conduct (the Code),<sup>1</sup> Metrobank wanted to implement global best practices and mitigate their foreign exchange (FX) settlement risk.

<sup>1</sup> The Code is a set of 55 principles established through collaboration between central banks and market participants from 16 jurisdictions to promote the highest ethical standards and best practices for the FX market.

<sup>2</sup> The BIS Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets in 2019. [bis.org](https://www.bis.org)

**Market challenges**

FX volumes continue to increase globally, with the Bank for International Settlements (BIS) reporting average daily trading volumes of USD6.6 trillion in 2019. In particular, the rate of growth in emerging markets FX trading has been steeper than in G10 currencies, rising from 19% to almost 25% of global turnover since 2016. FX trading in the Philippines grew 46% between 2013 and 2019 compared to the overall Asia Pacific region, which grew 23% over the same period.<sup>2</sup>

Against this backdrop of increasing FX activity and a global move towards adopting best practices across the FX market, Metrobank identified increasing settlement risk associated with their G10 currency trading and proactively sought to mitigate this risk by adopting CLS's global payment-versus-payment (PvP) FX settlement system – CLSSettlement – through settlement member bank UBS.

46%

Growth in FX trading in the Philippines between 2013 & 2019



A remarkable move for a leading bank in a market new to CLS, where its home currency is not yet CLS-eligible.

### The solution

CLSSettlement settles FX transactions for 18 currencies including USD, EUR, JPY, SGD and HKD. The PVP process mitigates the risk of loss of principal resulting from a counterparty failing to meet its obligations by ensuring that the final transfer in one currency occurs if and only if the final transfer in the other currency also occurs.

CLS's mission is to minimize systemic risk while improving funding and operational efficiency for clients and the broader FX market. Its critical role in the smooth functioning of the FX market was no more evident than during the global financial crisis in 2008 and most recently through the ongoing Covid-19 pandemic.

CLSSettlement is available both directly, to settlement members, and indirectly, to third-party participants. Third-party participants access CLSSettlement through existing settlement members offering CLS-related services to their clients. Metrobank accesses CLSSettlement as a third party through UBS.

"The collaboration with Metrobank on CLSSettlement implementation was a successful experience for UBS," says Sandra Laielli van Scherpenzeel, Head of Cash Banks at UBS. "A remarkable move for a leading bank in a market new to CLS, where its home currency is not yet CLS-eligible. This step shows the importance of settlement risk reduction overall in an increasingly changing FX market. Through an automated F2B process supported by our e-solution UBS KeyLink, Metrobank is in a position to leverage its FX transactions in CLSSettlement efficiently and in an automated and remote way. Managing business remotely and streamlining processing is fundamental in the challenging pandemic context we are in.

"Furthermore, Metrobank benefits from the CLS multilateral netting effect, which leads to reduced collateral and liquidity consumption. A win-win solution, which we hope other banks in the region will pursue. At UBS we have been committed to CLS since the early days, holding a leading position in offering CLSSettlement third-party services to institutional clients. For those banks interested in settling their clients' volumes in CLSSettlement using a segregated structure, we offer also CLSSettlement fourth-party services."

This step shows the importance of settlement risk reduction overall in an increasingly changing FX market.

**Sandra Laielli van Scherpenzeel**  
Head of Cash Banks  
UBS

Previously, Metrobank's back office process for settling CLS-eligible currencies involved a significant level of resource overhead. By settling in CLSSettlement, Metrobank now automates 80% of its processes and has significantly reduced the overall volume of payment messages. Metrobank makes or receives single payments in each currency settled in amounts that are multilaterally netted across its CLS-settled payment instructions for that settlement date. Compared to making individual gross payments for each trade to be settled with each counterparty, CLSSettlement significantly reduces Metrobank's funding requirements and counterparty risk.

In addition to enhanced risk mitigation and improved operational efficiency, Metrobank has also benefitted from business growth opportunities in its FX business through:

- **Efficient use of credit**  
Reducing FX settlement risk means that Metrobank no longer has to allocate the gross amount of a trade to a counterparty's daily settlement limit. This allows it to trade in accordance with market demands, increasing its attractiveness to other counterparties who also want to reduce their FX settlement risk.
- **Broader counterparty rosters**  
CLS allows for uniform processes, eliminating the need for specific per-counterparty instructions for settlement. Adding new trading partners to a counterparty panel thus requires no additional workflow when settling via CLSSettlement, which eases onboarding. This allows Metrobank to broaden counterparty rosters easily and provides it with the flexibility to pursue its own unique counterparty risk metrics and expand its global footprint.
- **Better price execution**  
CLS has 74 settlement members, which support over 25,000 other institutions including banks, corporates and asset managers. This counterparty diversification creates more opportunities for counterparties to compete for each trade, which leads to better price execution.

# 13 banks in the Philippines – including Metrobank – have signed a Statement of Commitment to the Code.

## Put to the test

Metrobank started settling their eligible FX trades in CLS Settlement in February 2020, as the first Covid-19 infections were being reported. The initial impact of the Covid-19 pandemic put unprecedented pressure on the global economy, and multiple nationwide lockdowns affected investor sentiment. Global financial markets moved sharply in both directions, widening credit spreads and diminishing liquidity around the world. This created heightened volatility in the FX market, and CLS processed 3.1 million instructions and settled a record USD13.4 trillion of payment instructions on 18 March 2020.

Like many of its peers during this time of market volatility, Metrobank would have struggled to process such high trading volumes from an operational and funding perspective had it not settled in CLS Settlement.

Paul Robert Y. Murga, EVP, Operations Group Head from Metrobank says, “Metrobank’s participation in CLS Settlement during the height of the pandemic has been both timely and strategic, as this enabled the bank to effectively implement straight-through processing for FX trading transactions while mitigating settlement risks.

<sup>3</sup> CPMI: “Enhancing cross-border payments: building blocks of a global roadmap” (July 2020) [bis.org](https://www.bis.org)

With the added efficiency, the bank increased its productivity and shifted resources to more value adding tasks. The opportunities offered by using CLS Settlement proved advantageous for the bank and the business as it continues to promote meaningful banking in the Philippines.”

## Market adoption of best practices

The Committee on Payments and Market Infrastructures (CPMI) issued a report in 2020 recommending the use of PvP arrangements, where practicable, to reduce settlement risk when settling FX transactions.<sup>3</sup> By using CLS’s PvP settlement service through committed providers like UBS, Metrobank is able to reduce its settlement risk as much as possible.

It remains critical that all market participants strive to adopt global best practices that mitigate risks and establish stronger controls, as well as improve operational efficiencies. Industry initiatives such as the introduction of the Code have motivated many FX market participants, including those in Asia, to adopt a best practice approach to settlement and post-trade processing.

Not only does the Code advocate best practices in FX operations and drive greater transparency, but Principle 50 specifically states that market participants should measure and monitor their settlement risk and seek to mitigate it wherever possible. In the Philippines, 13 banks – including Metrobank – have signed a Statement of Commitment to the Code. Seven banks signed up to the Code in 2019, and six in 2020. This promising trend shows there is an overall push in the industry for improved operational efficiency and risk mitigation, which Metrobank has supported by signing up to the Code and using CLS Settlement to settle its trades.

## Benefits of CLS Settlement

### FX settlement risk mitigation

Improving risk management enables banks to better manage their exposure and capital charges

### Reduced funding requirements

Multilateral netting, combined with other liquidity management tools, dramatically reduces the funding required to settle payment instructions on a gross basis in CLS Settlement. This means that when CLS settles approximately USD6.0 trillion on a daily basis, only 1% of the gross notional is typically required to settle (approximately USD60 billion), which enables better use of liquidity.

### Automation and reduced operational overhead

CLS Settlement users benefit from operational efficiencies thanks to uniform processes and straight-through processing. When a participant submits FX payment instructions to CLS Settlement, those payment instructions are automatically matched and confirmed. On the value date, CLS calculates the net position of all payment instructions for that value date and only requires settlement members to make payments in each of the currencies in which they are short for settlement. In comparison to traditional gross settlement, this can significantly reduce the amount of payment messages sent and payment instructions.

### FX Global Code

Using CLS products and services plays an integral part in helping you comply with the FX Global Code. Find out more at [cls-group.com](https://cls-group.com)

Trusted by thousands of counterparties within the global FX ecosystem, CLS makes FX safer, smoother and more cost effective. Trillions of dollars’ worth of currency flows through our systems each day.

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