FXS Payment System

FAQ – Frequently Asked Questions

BME Post Trading

General

What is FXS?

FXS is a Payment System operated by BME, which provides currency transactions settlement services by the application of a Payment versus Payment methodology. FXS is under the surveillance of the Bank of Spain-Eurosystem, and is compliant with the CPMI-IOSCO principles for financial market infrastructures.

Which is FXS' main objective?

FXS provides with FX settlement services with the objective of mitigating inherent settlement risks, in concrete, principal risk is eliminated through the Payment versus Payment service provided.

Additionally, FXS performs a bilateral netting process of the currency positions between two counterparties for the same settlement date, thus optimizing the required liquidity and reducing operational risk.

What is the meaning of Payment versus Payment?

In the payment operations settlement, the non-simultaneous payments principle entails settlement risk: it is possible that although one of the counterparties has fulfilled its payment obligation in one currency, the other party does not transfer the funds in the other currency, so the former may lose its principal. Payment versus Payment is a settlement mechanism which ensures that the final transfer of the funds in one currency will be made if and only if the final transfer of the funds in the other currency has been sent.

FXS receives the settlement payments from both counterparties of the transaction, ensuring both payments have been received before proceeding with the final transfers to the counterparties. Thus, principal risk is eliminated, because in case one of the counterparties does not transfer the required funds, FXS will return all the funds that have been received from the counterparty who did fulfil its payment obligation.

Which is the relationship between FXS and BME FX SPOT platform?

Both platforms are operated by BME, and are part of the BME FX solution, which aims to provide entities with currency trading and settlement integrated services. Both platforms are connected, in the sense that all the transactions executed in BME FX SPOT platform are settled in FXS, through an unique agreement, thus preventing participants to maintain agreements among them.

Participation requirements

Is the service just offered to financial entities or also to corporates?

Currently the service is just offered to financial entities, but it is foreseen that it will be extended to corporates in a second phase.

Is it possible to settle with any counterparty in FXS?

Yes, as long as this counterparty is also a FXS' participant, and for this it must comply with the admission conditions.

How is it possible to integrate FXS settlement in the current FX settlement back-office processes?

In a simple manner, participants maintain their current back-office processes. It is just required that settlement instructions are sent to FXS through the different channels available for this purpose. The operation can be managed via SWIFT, and in the same way it is being routinely managed. The participant is informed of the whole process by means of a Web-based terminal provided by the system for managing the operation, and also relevant communications are sent via e-mail.

Is it possible to settle transactions executed in any electronic trading platform?

Yes, the only requirement is that both counterparties of the transaction send their settlement instructions to FXS through the different channels available for this purpose.

What is required to start using the service?

The participant condition is granted by signing the corresponding standard terms and conditions agreement. You may contact BME FX Operations team in the following e-mail address: bmefx@grupobme.es.

FXS Operation

Is it possible to input transactions for settlement in the FXS terminal?

Yes, the possibility exists to manually input transactions for settlement in the FXS terminal.

How can transactions be sent to FXS?

There are several channels for sending settlement instructions to FXS:

- Through SWIFT messages (MT300).

- Manually inputting the instruction in the FXS terminal.

- Directly from any trading platform which has an agreement with FXS for this purpose. This is the case for the trades executed in BME FX SPOT, the electronic trading platform operated by BME.

Which are the operating hours?

The service is provided continuously, 24 hours Monday to Friday, except market holidays.

Which are the supported currencies and terms?

Currently, it is possible to settle through FXS transactions in EUR, USD, GBP, CHF and MXN.

Transactions on these currencies are settled in D+1 and D+2. There is also the possibility to settle transactions in D, but only in EUR, USD and GBP.

Is the service going to be extended to more currencies?

Yes, depending on the participants' demand and the possibility to open correspondent bank's accounts in the new currencies. In the short term, it is foreseen that Asian-Pacific (JPY, CHN, NZD and AUD), Nordic (DKK, SEK, NOK) and PLN currencies are included.

Which are the costs of FXS settlement? Are there fixed costs?

There will not be fixed costs for FXS settlement services, the fees are variable depending on the use of the services.

Settlement conditions

Which are the currencies' cut-off times in FXS service?

The cut-off times applied by FXS are informed to the participants via circular, and they will be also available in FXS terminals.

In application of its Payment versus Payment method, FXS needs to receive payments from the participants with advance enough over the conventional cut-off times, in order to check that funds have correctly arrived before proceeding with the final transfers to the counterparties.

Through the application of an algorithm developed for this purpose, the system calculates both the required funds and the timeframe when these funds must be sent for settlement, and this information is provided to the participants in advance enough.

What happens if the other counterparty does not send funds in some currency?

FXS applies the Payment versus Payment methodology in order to eliminate principal risk. In case one of the counterparties does not transfer settlement funds, the transaction will not be settled but the settlement funds received by FXS will be returned to the counterparty who did fulfil its payment obligation, thus ensuring there is no principal lost.

Which is the real risk of FXS settlement?

Although principal risk is eliminated, participants who are involved in a failure of some kind and find that transaction was not finally settled could be facing market risk, in case there is an unfavourable movement of the exchange rates when they close the transaction at a different trading date.

What happens if SIX-BME goes bankrupt? Are client's currency funds considered bankruptcy assets?

Funds from participants are held in separated accounts ("safeguard accounts"), ensuring their funds will be protected from creditors in case SIX-BME goes bankrupt.