



Non Deliverable Forward (NDF) clearing in post-trade settlement

Leverage salerio to manage counterparty risk and  
benefit from efficient FX clearing

solutions

a product from  
**corfinancial.**  
london | boston | new york

The near collapse of the banking system in the United States, the United Kingdom and Europe in 2008, raised counterparty risk to the forefront of every financial institution's agenda. Concerns that counterparties might not meet their obligations threaten the very solvency of the sector, particularly with high exposures to various derivative instruments across the sector.

Partly in response, regulatory bodies in the U.S. and Europe have launched various initiatives, such as EMIR and Dodd-Frank, to adopt mandatory centralised clearing for a specified list of derivative instruments which includes OTC swaps and non deliverable forward products. There should be no doubt that these reforms will cause wholesale changes to Financial Services firms, impacting their budgets, business models, operations, data and technology.



There should be no doubt that these reforms will cause wholesale changes to Financial Services firms, impacting their budgets, business models, operations, data and technology.

Although the majority of the broader reforms have been enacted, and many firms have started the arduous journey towards compliance, arguments remain over the harmonisation of mandatory NDF (non-deliverable forward) clearing between the U.S. Commodity Futures Trading Commission (CFTC) and the European Securities and Markets Authority (ESMA). These disagreements have pushed the clearing of this particular asset class to 2016.

Irrespective of what shape the final regulation will take, many buy-side institutions are still grappling at a more basic level with how their existing technical architectures can support the clearing of NDFs. It appears as if many will revert to manual processing or introduce tactical enhancements outside of their core processing systems.

## the mechanics

To clear NDFs buy-side institutions must transmit their transactions via the MarkitServ FX clearing gateway to the designated FX Clearing Counterparty (CCP). At this point the trade is novated and entered into the daily collateral process.

Prior to novation the transaction passes through a central matching process and when matched is assigned to a clearing broker for acceptance. At any point in this process a transaction can hit an exception, which calls for manual intervention to remedy.

This exception management requirement adds another layer of complexity and processing to most buy-side institutions already fragmented approach. If account is taken of the Omgeo product suite, SWIFT GETC, and non-cleared

FX transactions, an operations team managing a global workflow could have six separate workstations to monitor at any point in time. Quite simply, counterparty risk increases settlement risk.

## our solution

salerio has established a direct interface with the MarkitSERV FX clearing gateway via the SWIFT MT300 & MT396 messages to enable a real time exception tracking process.

salerio identifies trades that are eligible for central clearing and transmits these to MarkitSERV via the SWIFT MT300 message. Once accepted MarkitSERV will then return SWIFT MT396 messages that in turn update the status of the trade throughout every step of the clearing process until the trade is finally novated.

Based on these status updates salerio isolates and prioritises exceptions so the user can take immediate remedial action.

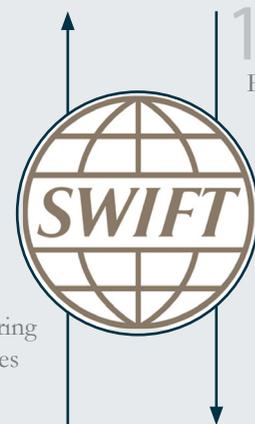
The NDF clearing workflow is now added and integrated with all the other post execution workflows that are part of salerio's central hub, and from which all exceptions across multiple asset classes can be managed. At a glance the operations manager can see the exact real time position of current activity without the need for viewing multiple systems or workstations.

Consolidating this process with existing workflows saves cost, valuable resources and ensures the operation continues to be scalable in the face of ever increasing trading volumes and changing regulation. Counterparty risk is now better managed and controlled.

MarkitSERV FX Clearing  
Service via salerio

4. Real-time NDF status and exception management now centralised in salerio

# salerio.



1. Eligible trades routed via SWIFT MT300

3. MT396 clearing status updates

# MarkitSERV

2. Central Counterparty (CCP) Clearing process



salerio handles the posttrade processing of asset managers with a cumulative total of over \$2 Trillion AUM

Find out more about why our customers are enjoying the benefits of salerio. How can we help?

call 0207 877 4045

email [info@corfinancialgroup.com](mailto:info@corfinancialgroup.com)

visit [corfinancialgroup.com](http://corfinancialgroup.com)

solutions from

**corfinancial.**

london | boston | new york.

 **salerio.**

Automates the flow of securities and treasury trades from matching through to settlement.

 **bitarisk.**

Suite of applications addressing needs of private wealth managers, investment advisors, asset managers, quant teams.

 **paragon.**

Fixed-income accounting hub delivers front-to-back office portfolio accounting and processing solutions.

 **sanctionsmonitor.**

A sophisticated, easy-to-implement and easy-to-use sanctions monitoring, auditing and reporting tool.

 **abraxsys.**

Comprehensive integrated banking platform delivering an industry-leading banking service.

 **costars.**

Retail fund/transfer agency solution providing end-to-end administration for collective investments.

 **almeter.**

Control financial and business risk by assessing the impact of varying interest rate scenarios and hedging activities.

 **kycmonitor.**

Case management solution to provide clear evidence to the relevant authorities that effective and sufficiently robust AML controls are in place.

---

Cor Financial is a trading name of COR Financial Solutions Ltd.

Salerio, Paragon, BITARisk, SanctionsMonitor, Abraxsys, Co-Stars, Almeter and Cor Financial are all Trademarks of COR Financial Solutions Limited or its subsidiaries.

© COR Financial Solutions Limited 2002-2015. All rights reserved