PRESS ANNOUNCEMENT

FOR IMMEDIATE RELEASE

INDUSTRY INITIATIVE TARGETS $10 TRILLION DAILY INTERBANK PAYMENTS FLOWS

LEADING BANKS ASSESS NEW WHOLESALE PAYMENTS NETTING OPPORTUNITY

London – 13 December 2017 – A new payments netting initiative for high value payments is being assessed by eight leading global banks. Cash Netting Services (CNS) will help banks to reduce daily interbank payment flows significantly - and associated liquidity and capital management obligations. Eight banks are collaborating with CNS to gauge the size of the bilateral netting opportunity, and associated benefits in respect of improved cash and liquidity management practices and processes.

It is estimated that some US$10 trillion a day is paid, gross, between banks, even after other asset specific netting (e.g. FX through CLS) and payments compression (e.g. CHIPS). The largest banks in each currency represent 15% to 45% of total payments value. To support such huge daily flows, over US$1trillion of high quality liquid assets are required to be held in bank payment systems, with a corresponding impact on intraday liquidity efficiency and opportunity cost.

CNS addresses interbank payment and liquidity inefficiencies by identifying payment netting opportunities between banks. CNS analyses high value payments data from participating banks and, at agreed times, calculates and publishes net cash positions per currency between pairs of banks (providing details of ALL payments included in the net calculation). Net payment obligations are determined by bilateral netting agreement (by currency) between pairs of participating banks. In accordance with the terms of these agreements, participating banks receive payment messages in SWIFT format to facilitate net payments.

The company (formed by Nick Dyne and John Barber, previously behind the development of Logicscope, the market leader in post trade FX confirmations) is underpinned by CGI's technology and infrastructure. (CGI is one of the leading providers of payments and netting infrastructures and services to global banks and payment systems). The initiative also incorporates the services of leading legal and financial consultancy firms.

The CNS service will be fully implemented in 2018.

Nick Dyne, Cash Netting Services said: "The real cost to banks of supporting high value global payments, and opportunity cost of having cash tied up to support them, is US$10s of billions a year. The enthusiasm of 8 of the world's largest global banks in providing comprehensive and detailed payments data to us to determine the size of the netting opportunity is a great endorsement of the potential value of the CNS service".

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<u>Background information</u>

Cash Netting Services

Cash Netting Services was launched by financial technology professionals and business entrepreneurs, John Barber and Nick Dyne. John Barber held senior positions in Dow Jones Telerate (MD EMEA) and ICAP (now Nex Group) before joining Nick at Logicscope. Nick Dyne has a long history of delivering innovative financial technology solutions, from real time data servers to sophisticated ‘straight through’ trade messaging for FX transactions.

Previously, Barber and Dyne built a highly successful, multi-participant FX STP network – Logicscope – acquired subsequently by global transaction processing specialist I H S Markit.

Aligned with current regulatory environment

Effective control and risk mitigation of intraday liquidity supporting bank payments is subject to ongoing regulatory oversight, and onerous compliance obligations (e.g. ‘ability to pay’ stress testing). The **Basel Committee on Banking Supervision** (and other EU supervisory frameworks) requires international banks to hold sufficient HQLA (High Quality Liquid Assets) to meet prescribed Liquidity Coverage Ratio obligations (set by Central Banks). This can require banks having to ring-fence up to 25% of available intraday HQLA assets to satisfy regulatory requirements. CNS (treated as other netting services) can reduce capital held against Liquidity Coverage Ratio, releasing significant HQLA to the business.

The UK’s **Prudential Regulation Authority (PRA)** proposals to tackle liquidity risk go beyond the demands of the Basel Committee and EU supervisory frameworks in respect of evaluating cashflow and liquidity risk.

Recent mandates such as **BCBS 248** and **Basel III** have exposed the real costs of intra-day liquidity. Previously, banks have had no obligation to calculate and report intraday (and cross-business) credit costs accurately. At the same time, interest charges (cost of credit), far more stringent capital adequacy obligations and regular stress testing of banks’ ‘ability to pay’ necessitates improved cash and liquidity management practices and processes.

By reducing (compressing) the volume/value of daily interbank cash payments through efficient bilateral netting, banks can reduce liquidity risk and enhance intraday liquidity and cash management efficiency.

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