

## FX Smart Clearing overview

### What is FX Smart Clearing?

Since the implementation of SA-CCR in June 2021, the FX industry has struggled to cope with the sharp increases in risk-weighted asset (RWA)/leverage ratio capital requirements.

**FX Smart Clearing** is the intelligent, purposeful, selective and optimised clearing of FX Swaps and FX Forwards for the purpose of financial resource optimisation, particularly counterparty credit risk capital under SA-CCR.

As these products are not subject to bilateral initial margin (IM) under Uncleared Margin Rules (UMR), clearing all trades would create a higher IM cost, potentially negating the capital benefits achieved. Therefore, FX Smart Clearing involves clearing only those trades (risk) that maximise capital savings, without materially increasing IM.

**FX Smart Clearing** can be achieved bilaterally or multilaterally, with or without an intermediate optimiser algorithm: essentially, it is agnostic to how the cleared trades reach LCH ForexClear.

The value proposition from a recent proof of concept suggests >60% savings when run on real data. Any residual FX risks can be subsequently sent to SwapAgent.

**FX Smart Clearing** also provides significant benefits for other target capital measures.

**Benefit from the strong network, improved capital efficiency and further optimisation benefits from facing a CCP.**

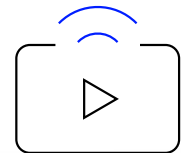
### In a recent proof of concept with Quantile Technologies:

#### 01.

13 member groups showed an average **51%** potential capital reduction, without increasing IM significantly, which has the scope to increase to >**70%** as the clearing network and eligible products grow (see charts on % capital saving of bilateral vs cleared optimisation below).

#### 02.

**US\$2.7trn** of notional was identified for backloading, of which **71%** could be further compressed.



#### 03.

Members with larger cleared NDF and FX Option portfolios registered larger potential savings than the average.

#### 04.

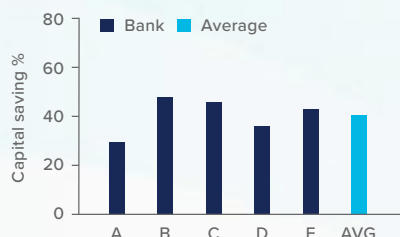
The proof of concept (PoC) proved the network of banks would have made a **US\$240m** real-world saving in profit and loss (P&L) cost of capital.

Attribute	PoC
Participants	13 banks/19 entities
Effective notional reduction	US\$484bn
<b>Capital % reduction (target measure)</b>	<b>51%</b>
Cleared notional (backload + overlays)	US\$2.7trn
Additional compression potential	US\$1.9trn (71%)
Capital P&L saving across the network	US\$240m p.a.

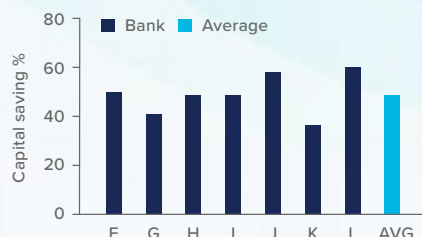


## FX Clearing just got smarter – the more you clear, the more efficient optimisation becomes:

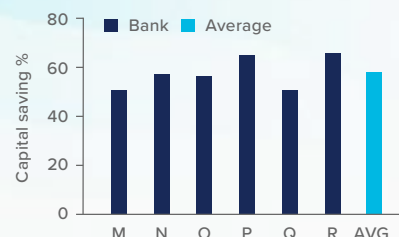
### NON-CLEARING BANKS (41% average saving)



### BANKS CLEARING NDF (49% average saving)



### BANKS CLEARING NDF AND FXO (58% average saving)



## How does FX Smart Clearing work?

### A. Trade selection

FX Smart Clearing is facilitated through the introduction of an **Approved Trade Selection Provider (ATSP)**, where existing FX portfolios can be assessed for selection to be sent to the most appropriate LCH service (i.e., LCH ForexClear or SwapAgent).

### B. Trade booking

FX Smart Clearing acts on existing bilateral portfolios, creating the first utility to manage **bulk novations and backloads for FX products**:

- The solution sends the **maximum amount of risk to LCH ForexClear within counterparty-defined IM tolerances**
- The residual risk is sent to SwapAgent to realise all of the benefits of our bilateral service

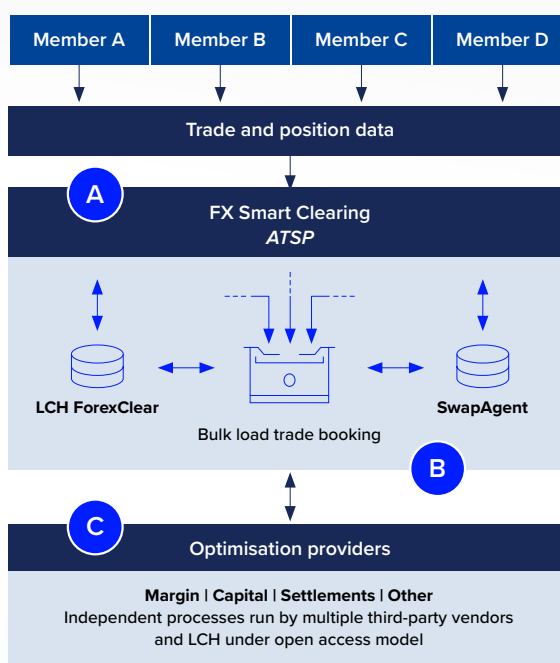
### C. Ongoing management

In order for FX Smart Clearing to realise its potential in the target state, LCH will maintain its **open access model** so that optimisation providers can continue to treat each LCH service as a 'node' within their own processes to further optimise.

### D. Go-to-market/Staging

Prototyping/real trades can be smart cleared via current 'flat file' backloads to LCH ForexClear. The current PoC group of banks support of this process during the build phase.

### FX SMART CLEARING IN ACTION



**LSEG** POST  
TRADE

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To opt in to newsletters, visit: <https://solutions.lseg.com/Regular-ClearingVolumes-Update>

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