



Trend Topic: Trust in Financial Services

By



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Before joining CLS in 2019, Marc spent over 20 years at the European Central Bank, most recently as Director General, Market Infrastructure, defining and steering policy for market infrastructure and payments. He also managed the T2S Programme and worked on market integration and the Eurosystem's operational framework.

As Chairman of the European System of Central Banks Market Infrastructure and Payments Committee and a member of the BIS Committee for Payments and Market Infrastructure, he contributed to regulations and international standards. Prior, Marc was Senior Advisor at Sicovam SA, now part of Euroclear. He graduated from CERAM with a Master's degree in Finance and has authored publications on market infrastructure integration, including the euro repo market.

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Digital settlements and the complexity of choice

In the realm of finance, settlement is easy to overlook. Most people never think about it, even though it sits behind hundreds of trillions of dollars in transactions every day.

That's because when settlement works, nothing happens. It is quite simply the final step in a financial transaction where cash, securities, or other assets officially change hands between two parties. Money changes hands. Trades close. The system moves on to the next transaction. It's only when something goes wrong that the importance of settlement — and ensuring it happens in a way all parties can trust — becomes clear.

The introduction of digital assets such as tokenized reserves, tokenized deposits and stablecoins may change some of the processes we've relied on for decades. If we do it right, clients will have more choice. They'll be able to rely on traditional forms of money and settle transactions through traditional methods or, if they prefer, digital assets via distributed ledger technology — a blockchain.

Choice is often framed as a positive. But choice can also introduce complexity and often requires trade-offs. We owe it to ourselves to think carefully about these trade-offs, because the increased availability of digital assets, and reliance on blockchain technology,

represents a foundational change that will reverberate throughout the financial system. Digital assets and the mainstream adoption of blockchain technology could bring efficiency gains in the global payment arena, but they could also lead to challenges like market fragmentation and liquidity constraints. The choices we make and the complexities we accept will have real consequences.

Building trust with regulation

As digital assets become more commonplace, the question around how to ensure they can be trusted to move money around the global arteries of finance becomes louder. This is where the importance of regulation comes in – indeed blockchain itself provides a powerful example for its use.

Blockchain first came to prominence with promises to allow buyers and sellers to bypass their traditional intermediaries – banks and brokerages. Trust would be provided by architecture and technology.

It hasn't worked that way. The freewheeling roots of blockchain – the qualities that initially made it so appealing to so many – turned out to be its Achilles' heel. Without regulation and sound governance, large-scale adoption of blockchain doesn't have the necessary framework for trust.

Now, many of those who are leading much of the experimentation and implementation of blockchain and digital asset solutions are the very intermediaries who were intended to be bypassed. A technology that was supposed to belong to the upstarts will find success with the very intermediaries it was supposed to replace. Why? Because many of these are overseen and regulated, and that has substantially contributed to the creation and preservation of trust.

Complexity that goes beyond technology

While digital assets including blockchain have been around for many years, they have remained relatively niche. However, it is increasingly clear the world is moving in the direction of multi-asset and

multi-payment rail solutions, which may lead to the coexistence of different settlement options.

Different types of assets may require different forms of payment rails. Currently, foreign exchange (FX), for example, can be settled via a process called payment vs payment (PvP). PvP ensures that the final transfer of one currency occurs only if the final transfer of the other currency also takes place. If the trade fails on one side, it fails on the other.

From today's perspective, settling an FX trade on a blockchain does not offer an obvious advantage. PvP mechanisms already address the key settlement risk in FX by ensuring that both sides of the trade are completed simultaneously. "Atomic settlement," often presented as a novelty in the blockchain space, is precisely this: settling simultaneously on an all-or-nothing basis.

However, the benefits of the underlying blockchain technology may become more obvious when FX transactions form part of a broader, multi-asset transaction. Equities transactions (which often include securities and a corresponding fiat currency payment) are one example. Managing this via a shared ledger has the potential to reduce settlement complexity, as well as the need to reconcile across multiple systems. So even if these new forms of settlement do not have an immediate impact on FX, they could become more relevant as interconnectivity increases within financial markets.

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The building blocks needed to scale

More is sometimes better, but not always: each new solution may for example require its own pool of liquidity. The more forms of settlement that we have to choose from, the less liquidity is available for each. A lack of liquidity can make settlement more expensive, slow it down, or, in extreme cases, make it impossible. Therefore, interoperability and liquidity optimization are key.

Even with multiple settlement options in place, each day, more than \$1.4 trillion of foreign exchange transactions are settled gross and not via PvP[1] without any settlement risk mitigation in place. These trades are fully exposed to settlement risk. This is also known as Herstatt risk, after a bank that failed in 1974.

There are several reasons for this, including the fact that existing PvP solutions do not cover all currencies and currency pairs. For example, the USD/CNH currency pair is the third most traded in the world but is not currently settled using PvP on a global scale. A blockchain-based system has the potential to extend PvP to markets not covered by the existing infrastructure, but parties, systems and currencies would still need to be connected. Forming these connections are underpinned by

factors such as geopolitical considerations. As such, the problems faced in the global FX market are not solely technological in nature.

Like other forms of settlement structures, blockchain-based systems would also require agreement on governance, legal arrangements (e.g. with respect to finality), settlement processes and dispute/failure resolution. In the FX market, this can involve cooperation between market participants, payment systems and central banks or other public sector authorities.

Developing and adopting new settlement services will take time. This is no surprise given the need to fully understand the underlying mechanisms, risks and potential consequences of trade-offs that may need to be made. Coupled with the fact that appropriate standards and regulatory frameworks are also fundamental if these new services are to be adopted at scale: a quick-fix is unlikely. But if experience has demonstrated anything, it's that the stronger the foundations, the more robust, effective and suitable for widespread use the resulting infrastructure is likely to be. —

References

[BIS Triennial Survey 2025](#)

