Failures in settlement: A study on foreign exchange division of Investment Banks

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An Investment Bank has various divisions and departments and each of them have functions of their own. On a daily basis, Investment Banks settle thousands of trades per day. Settlement of trades is not a child’s play. It requires careful attention to details so that the payments are made at the right time and most importantly to the right client. Standard settlement Instructions play a very important role in the settlement of trades but they are also considered as the key reason for settlement failures. This study explains the scope of SSIs and how SSIs cause settlement failures.

The forex market is the largest and the most liquid market in the world with an average traded value that exceeds $1.9 trillion per day and includes all of the currencies in the world. The forex market is open 24 hours a day, five days a week. There are hundreds of FX trades settled by an Investment Bank per day and at times, Investment banks fail to settle trades. While there are several factors that cause trades to fail, inaccurate settlement instructions have always been a key reason. Standing settlement instructions, also called SSIs, represent the most common reason for failed trades, say fund managers. That’s particularly the case for foreign exchange transactions because of a lack of consistency in the type of information conveyed among fund managers, custodian banks and broker-dealers.