Lets learn Clearing

integral for settlement of money

What is Clearing?

Clearing is a process that allow commercial banks in the same market place to send and receive payments to help movement of funds for their client or themselves.

Clearing systems is generally controlled by regulators and run either by them or by their agents within the country or at times outside of the country

Clearing system run through a window during which regulators and all the members are connected to help settle the transactions

What is Clearing?

Clearing settlement happens by the regulators and in general all members maintain the account with regulators to settle funds

Clearing reduces the risk of counterparty as central bank takes care of settling transaction and in general accounting happens real time.

The transaction received by clearing and funded and central bank would have credited before the payment reaches the beneficiary bank

Key attributes of clearing

Payment systems generally have the following key attributes:

- Typically in “local” currency – but offshore USD clearings also exist in some markets
- Defined number of members/counterparties
- Rules and operating procedures
- Risk controls of both counterparty and liquidity.

Different models exist in different countries for the settlement of interbank obligations arising from these transactions – Main ones are Real-Time Gross Settlement (RTGS) & Net Settlement (NS)

Some examples of clearing

Country	Name of Clearing System	Type	Currency
Singapore	MEPS	RTGS	SGD
Hong Kong	CHATS	RTGS	HKD and USD
Japan	FXYCS (also known as GYK)	NSBL	JPY
US	Fedwire	RTGS	USD
	CHIPS	NSL	USD
UK	CHAPS	RTGS	GBP
Euroland	SEPA	RTGS	EUR
	Target2*	RTGS	EUR

* TARGET2 is a link between the RTGS Clearing systems of different Eurloand countries, not a Clearing system in itself

Various Clearing – Net Settlement

Net Settlement: Earlier manual clearing was settling in a net mode, the same is extend for electronic clearing. The settlement happens at a period and a net of debit and credit to bank is posted to the banks. This netting of payments creates a credit risk against the counterpart member bank, and also a systemic risk – i.e. the default by a party can lead to an unwinding of other transactions. If the amounts or numbers are sufficiently large, a systemic, or 'domino' effect can occur, and can cause severe instability in the financial markets.

However, some Net Settlement systems mitigate the settlement risk by implementing limits or not allowing transaction to flow – either by way of single bank limit with the Clearing House, or bilateral limits with other member banks or multilateral limit, where sum of all transaction is pooled to decide the net position of the bank

Various Clearing – RTGS

RTGS : The Bank for International Settlements (BIS) and the National Central Banks have encouraged the development of payment systems that move funds across the member bank accounts at the central bank on a payment by payment basis – Real Time Gross Settlement. In RTGS mode, there is certainty that each payment is 'good' when received, and credit risk is practically eliminated. When a payment is received, balance is checked and posted before allowing the transactions is allowed to go to beneficiary bank

Accounting

For outgoing

Debit – Client Account

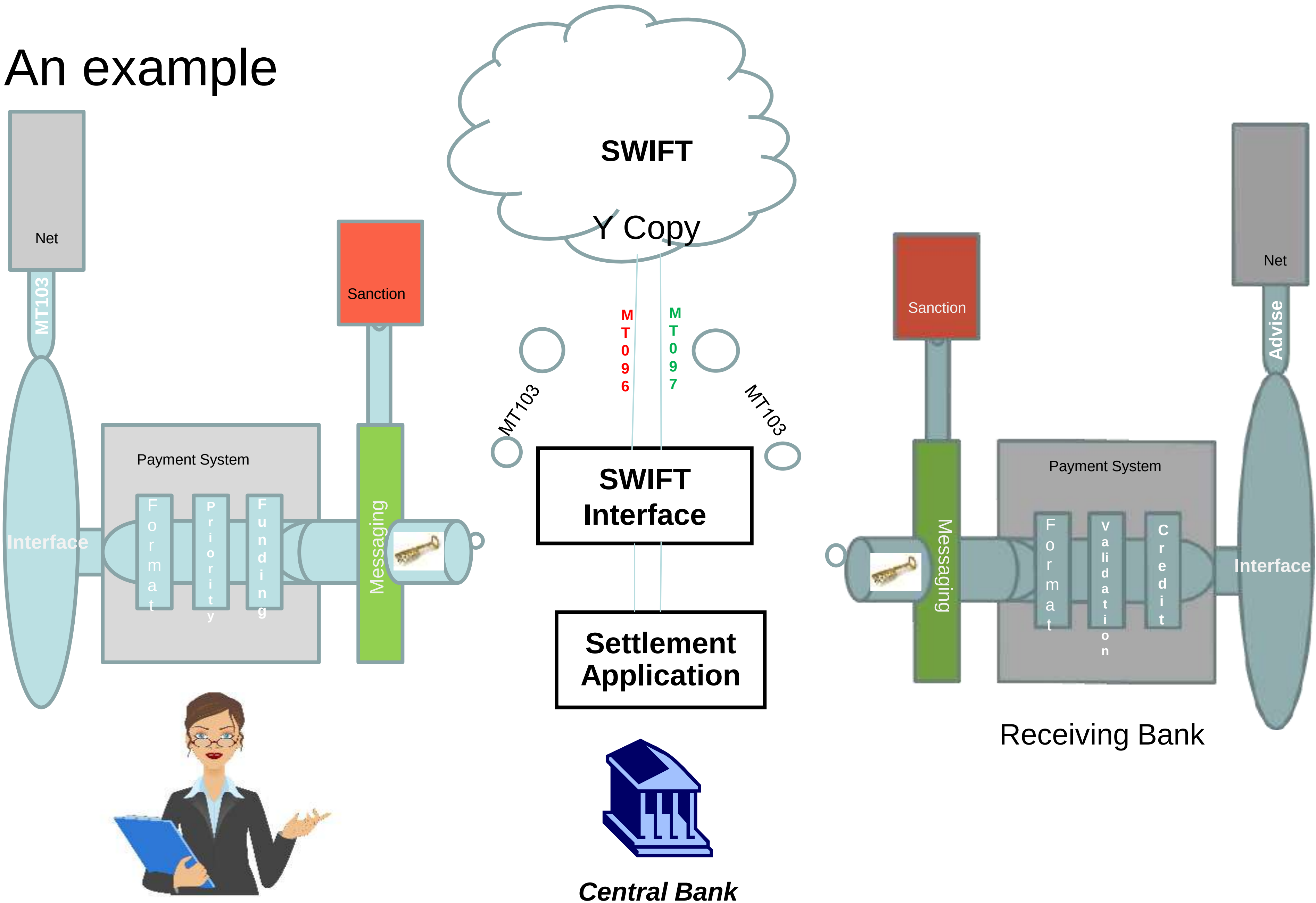
Credit – Clearing

For incoming

Debit – Clearing

Credit – Client Account

An example



RTGS Payment Flow through Clearing System – Y Copy mode