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It's nice to see something you have been arguing is important for years finally make it to the newspaper. The Financial Times did a couple of long pieces Friday (August 21) on the CLS Bank, an institution I've been doing research on since before it was founded (see, *Carnegie-Rochester Conference Series on Public Policy, Volume 54, Issue 1, June 2001, Pages 191-226 or* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=248058).
The CLS bank takes counterparty risk (so-called "Herrstatt risk") out of currency trading. I'll quote one of the FT articles:

"Since 2002, an increasing number of trades have been settled through CLS Bank. Owned by a group of the largest financial institutions, it runs a daily system for netting payments between it members that dramatically reduces settlement risk. Currencies accounting for about 95 percent of daily trading can be settled through CLS and all big banks use the system."

In fact the volume going through the CLS bank on a daily basis is mind-boggling. A conservative estimate says that every couple of weeks, the system turns over value equal to *annual world GDP*, making it—during the day time at least—by far the largest financial institution in the world. (That "during the day time" caveat reminds me of the boast by Memphis International Airport that it is the busiest airport in the world *at night*—because it's the hub for FedEx). During the night, once all trades are settled, CLS bank shrinks down to practically non-existent.

The second article in the FT then goes on to argue that CLS bank's solution for counterparty risk in FX trading should be the basis for reform of settlement systems of all sorts. That's a little simplistic: FX trading is special is several important ways, and CLS is designed to take advantage of those special circumstances. Moreover, CLS is fundamentally dependent on the support and cooperation of central banks, and it's doubtful that those central banks would be willing to give the same arrangements to other settlement systems. Still, the design of new settlement systems is one important potential remedy for the fragility we have endured in new financial markets over the past couple of years, and it's useful to use CLS as at least a partial model for those new systems.

For more on innovations in payment and settlement systems see "Why Pay? An Introduction to Payment Economics" by Charles Kahn and William Roberds **Journal of Financial Intermediation**
Volume 18, Issue 1, January 2009, Pages 1-23
http://econpapers.repec.org/article/eeejfinin/v_3a18_3ay_3a2009_3ai_3a1_3ap_3a1-23.htm