

# Activities and Achievements of the Project Team (PT) to Encourage PVP Settlement for Investment Funds (Summary)

April 2025

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# Introduction

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- THE PT HAS TRIED TO SOLVE DIVERSIFIED CROSS-SECTIONAL TASKS TO FACILITATE INCREASED ADOPTION OF PAYMENT VERSUS PAYMENT (PVP) SETTLEMENT FOR INVESTMENT FUNDS THROUGH DISCUSSIONS AT A ROUNDTABLE ON RISKS ASSOCIATED WITH THE SETTLEMENT OF FOREIGN EXCHANGE (FX) TRANSACTIONS, WHICH WAS HELD FOUR TIMES FROM 2016 TO 2018 AND MEETINGS OF THE PROJECT TEAM TO ENCOURAGE PVP SETTLEMENT FOR INVESTMENT FUNDS, WHICH WERE HELD 19 TIMES FROM 2017 TO 2025, WITH GUIDANCE PROVIDED BY THE FINANCIAL SERVICES AGENCY (FSA) AND THE BANK OF JAPAN (BOJ).
- WHILE THE TOKYO FOREIGN EXCHANGE MARKET COMMITTEE (TFEMC) DEVELOPED MARKET PRACTICES IN 2018, THE PT HELD STUDY SESSIONS FOR ASSET MANAGERS (AMS) AND CONDUCTED A QUESTIONNAIRE SURVEY, ETC. IN COLLABORATION WITH THE INVESTMENT TRUSTS ASSOCIATION, JAPAN (JITA) AND THE JAPAN INVESTMENT ADVISERS ASSOCIATION (JIAA) TO SPREAD THE PVP SETTLEMENT ACROSS THE INDUSTRY.
- TRUST FUNDS STARTED TO INTRODUCE CLS SETTLEMENT IN FULL SCALE IN THE LATTER HALF OF 2020 AND CLS HAS BEEN FIRMLY IMPLEMENTED BY NOW, SO THE PT WOULD LIKE TO REVIEW ITS PAST ACTIVITIES AND REPORT ITS ACHIEVEMENTS UNTIL NOW AT THIS TIMING.

# 1. Unique points of Japanese trust fund transactions

- Japanese trust funds have their own unique settlement methods.
- Japanese trust funds had to establish new market practices and prepare an operational system in collaboration with many parties, such as asset managers (AMs), FX banks, trust banks, global custodians, etc., to introduce CLS into Japanese trust funds.  
⇒The TFEMC and The Trust Companies Association of Japan (TCAJ) launched a project team to establish new market practices.

## 【Unique points of Japanese trust fund transactions】

- ✓ When an AM executes an FX transaction for trust funds in Japan, the firm engages in the transaction under the name of a trust bank, and the trust bank settles the transaction through a custodian based on instructions from the AM. Meanwhile, an AM clearly specifies that the buyer or seller is a trust fund and engages in the FX transaction under the name of the fund in the US and Europe. A custodian settles the transaction directly in the fund's account based on instructions from the AM in the regions. This means the mechanism of fund transactions, the legal system/market practices, etc. for trust funds are different between the two.
- ✓ A trust bank intervenes in the settlement flow. Trust banks sometimes need time to check the instruction from the AM against the confirmation letter from the FX bank, etc.
- ✓ Standing Settlement Instructions (SSIs) (\*), which are widely used in interbank/global fund transactions, have not been used in fund FX transactions in Japan. Trust funds must set up the SSIs first when they want to use them.

\*) SSIs are pre-agreed, standardized instructions for payment and delivery of securities.

## 【Secure an intraday liquidity】

- ✓ Since trust funds can use PvP settlement only in a limited timeframe, they need to secure an intraday liquidity of a currency they receive while PvP settlement cannot be used. Given a time difference between Japan and the US/Europe, they need to make careful preparation before introducing this mechanism.

## 【Settlement method】

- ✓ Japanese trust funds, including investment trusts or pension funds, have methods of adjusting executed FX transactions, such as splitting, moving ahead or extending the maturity date, etc., when a trust principal increased or decreased due to the new launch of funds, cancellation, etc.
- ✓ Japanese trust funds sometimes make FX transactions in a smaller unit than overseas funds do.
- ✓ There is a unique trading practice, such as a set-off among banks, in Japan.

## 【Mechanism to share costs】

- ✓ Japanese trust funds need to seek understanding from AMs and clients (beneficiaries) that they have to bear costs of using the CLS service.

## 2. Transition to the PvP settlement in Japan (1)

Date	Event	Details
Jun. 2016	The FSA's statement of 2016-2017 Strategic Directions and Priorities	Asset managers and trust banks <b>shared the FSA's commitment to promote PvP settlement to mitigate the FX settlement risks.</b>
Dec. 2016	The FSA established a "Roundtable on Risks Associated with the Settlement of FX Transactions."	<ul style="list-style-type: none"> <li>•The FSA's aim was to promote PvP settlement for FX transactions by trust funds.</li> <li>•The FSA confirmed its policy to continue discussing its key theme, namely how to promote CLS.</li> </ul>
May 2017--	<b>The Project Team (PT) on Fund FX PvP was set up.</b>	<ul style="list-style-type: none"> <li>•The TFEMC and the TCAJ set up the project team with a view to establishing new practices.</li> </ul>
Aug. 2017	An interim report on the Roundtable on Risks Associated with the Settlement of FX Transactions was released.	<ul style="list-style-type: none"> <li>•Participants compiled the results of discussions at the meetings of the 1<sup>st</sup> to 3rd Roundtable and adopted a two-phased approach for the implementation of PvP settlements; namely an initial phase for targeted transactions and a full-fledged phase for broader transactions.</li> </ul>
Mar. 2018	<b>The PT established new practices on PvP settlement for Japanese fund FX transactions in Tokyo and disclosed remaining tasks.</b>	<ul style="list-style-type: none"> <li>•<b>The PT tried to comply with the global practices/rules by enabling each fund to apply CLS to as many transactions as possible, except for those not suitable for CLS, as far as its operations allow, in establishing new practices.</b></li> <li>•When the PT enters into a full-fledged phase, each fund should strive to adopt/increase transactions in line with the new practices as far as its operations allow.</li> <li>•Given the gap between the To-Be state and the As-Is state, the PT acknowledged that it needed transitional measures to mitigate the impact of drastic changes of the investment business environment.</li> <li>•The PT shall strive to solve remaining problems and move to the new practices at an early stage as one through discussions among relevant parties to promote compliance with the financial crisis "FX Global Code."</li> </ul>
Aug. 2018	A final report on the Roundtable on Risks Associated with the Settlement of FX Transactions was released.	<ul style="list-style-type: none"> <li>•Participants confirmed the necessity of PvP settlement for fund transactions and agreed that they would adopt PvP settlement as quickly as possible, even though they face a lot of problems. (The PT took over the roundtable's role in effect and dealt with remaining tasks.)</li> </ul>
Oct. 2018 ~Mar. 2019	<b>Initial phase</b>	<ul style="list-style-type: none"> <li>•<b>The industry introduced CLS in stages, starting from those that seem feasible. (It left behind a track record of usage.)</b></li> </ul>
Jul.-Aug. 2019	Study session for the JIIA and the JIAA	<ul style="list-style-type: none"> <li>•The FSA and the TCAJ hosted a study session for the JIIA/JIAA toward the full-fledged phase.</li> </ul>
Oct. 2019-	<b>Full-fledged phase</b>	<ul style="list-style-type: none"> <li>•<b>Asset managers and trust banks aimed to adopt CLS as much as they can by March 2021 in line with the new market practices.</b></li> <li>•A set-off mechanism, which transfers money to a third party, was abolished in March 2021 as CLS was widely introduced. (The date to abolish the mechanism was postponed later due to the coronavirus pandemic, a lack of capacity for introducing CLS, etc.)</li> </ul>

## 2. Transition to the PvP settlement in Japan (2)

Date	Event	Details
Sep. 2020	The 10 <sup>th</sup> meeting of the PT on Fund FX PvP	• The PT postponed the date to abolish a set-off mechanism, which transfers money to a third party, and a date to complete the full-fledged phase until Sep. 2021 due to the coronavirus pandemic and a delay of transition to CLS, etc.
Mar. 2021	The 11 <sup>th</sup> meeting of the PT on Fund FX PvP	• The PT confirmed remaining tasks of the full-fledged phase based on results of the questionnaire survey from asset managers and how far trust banks have coped with this issue.
Jul. 2021	The 12 <sup>th</sup> meeting of the PT on Fund FX PvP	• The PT grasped the expected number of funds that would complete the transition based on results of the questionnaire result from asset managers and found that <b>it would take about three years until all the funds would achieve their transition plans due to a lack of their capacity to proceed with their plans.</b> The PT <b>reset the date to complete the whole transition process at Sep. 2024, with a plan to complete most of its process and abolish a set-off mechanism among banks by the interim point of Mar. 2023.</b>
Mar. 2023	A set-off mechanism was abolished as the transition was almost complete.	The <b>set-off mechanism</b> , a unique settlement practice in Japan, <b>was abolished, in principle.</b> <b>About 70% of funds in terms of foreign currency balance has introduced CLS</b> , as large funds introduced the new method ahead of others.
Sep. 2024	The transition was completed. (All the funds have introduced CLS.)	<b>All the funds that were supposed to adopt CLS have completed their mission. (75.3% in terms of the foreign currency balance)</b>

### 3. Schedule of introduction, Goal setting (1)

[Goal setting at the Roundtable (Aug. 2018)]

- ✓ Participants of the Roundtable said in a final report that they should set the second half of FY2018 as the end of the initial phase and the period from the second half of FY2019 to the first half of FY2020 as a full-fledged phase after discussions among them.



- ✓ The Roundtable entered into a full-fledged phase in 2021 in real terms as it took a lot of time to build an operational system and develop IT systems.
- ✓ The Roundtable acknowledged that trust banks and FX banks have only a limited capacity to set up CLS, including a capacity to set/exchange SSIs.



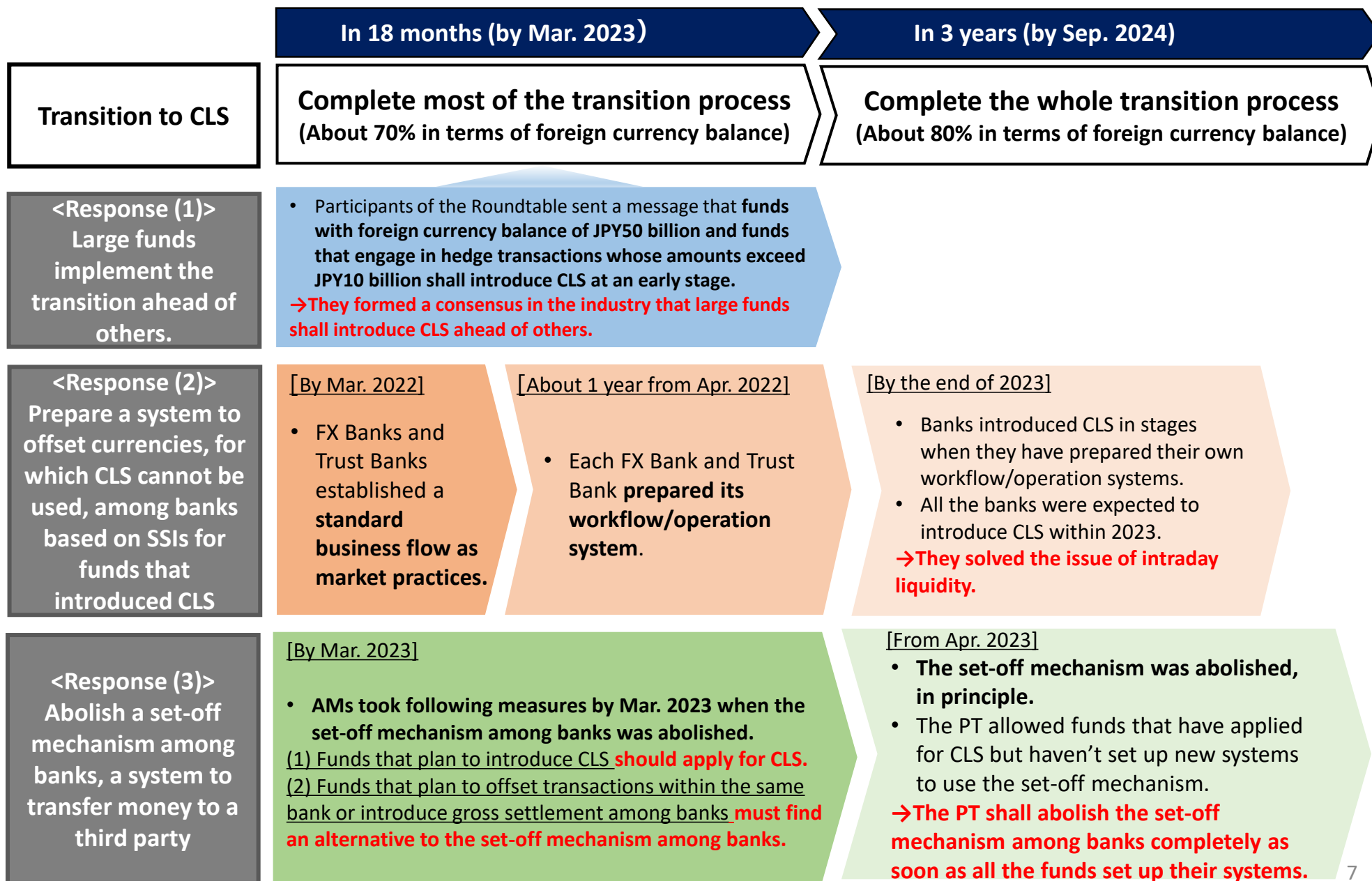
- ✓ The Roundtable conducted a questionnaire survey among asset managers who invest in foreign currencies to grasp the number of funds that plan to introduce CLS and judged that it would need about three years to complete the transition by all the funds.



[The PT reset its goal in Jul. 2021] (See the next page)

- ✓ The PT reset a time limit of the overall transition at Sep. 2024, namely three years later..
- ✓ Since it would take a long time for each company to implement the transition, the PT set a time limit to abolish the set-off mechanism among banks at Mar. 2023, namely one and a half years later, by when most funds were expected to complete the transition. (Large funds introduced CLS ahead of others. )
- ✓ The PT shall prepare a system to offset currencies, for which CLS cannot be used, among banks based on SSIs within the time limit.

### 3. Schedule of introduction, Goal setting (2)

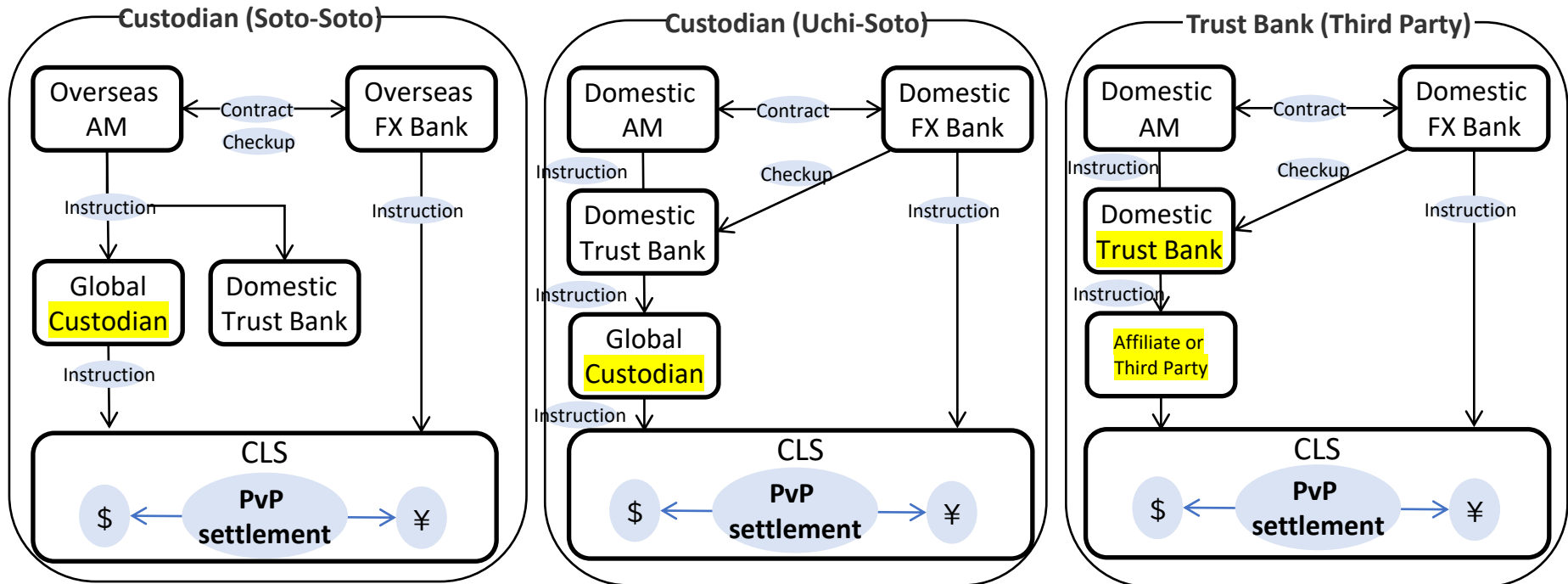




## 4. CLS participation models

See below for CLS participation models. Each trust bank can adopt multiple types of models, while asset managers (AMs) can select a scheme for each fund.

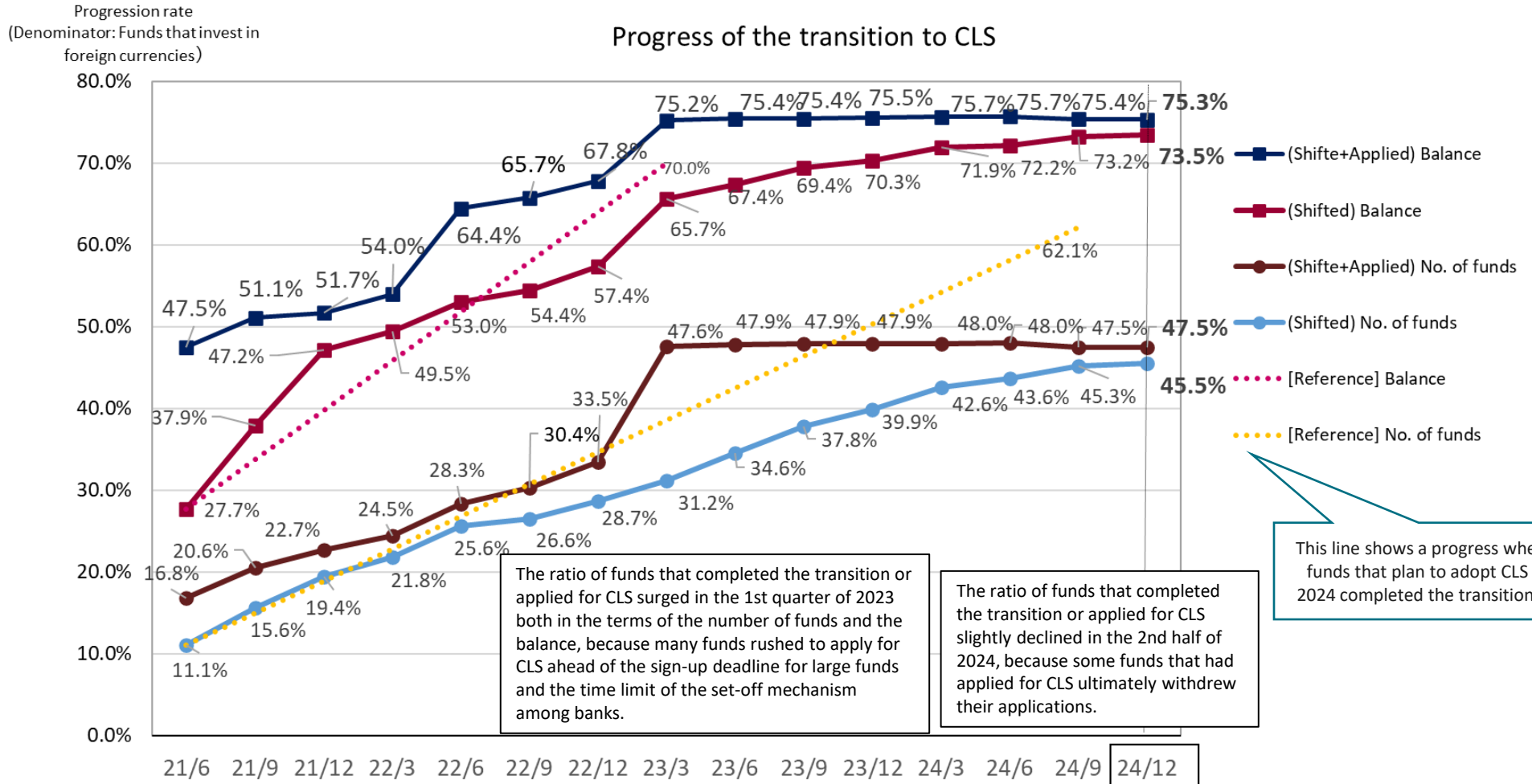
Model	Scheme	CLS Settlement Member	Main FX Counterparty	Receiver of instruction	Supplier of Intraday Liquidity
Custodian Model	Custodian (Soto-Soto) scheme	Global Custodian	Overseas FX Bank	Custodian	Global Custodian
	Custodian (Uchi-Soto) scheme	Global Custodian	Domestic FX Bank	Trust Bank	Global Custodian
Trust Bank Model	Third party scheme	Affiliate or Third Party	Domestic FX Bank	Trust Bank	Trust Bank, Affiliate of Third Party



# 5. How far the PT has come close to its goal (1)

- See below for a progress of the transition to CLS (\*) as of Dec. 2024.

\*) The following chart is based on results of a survey over funds that invest in foreign currencies as of June 2021 when the PT started to conduct a survey. Since the chart was created to grasp a progress of the transition, the PT didn't adjust a population of the survey, which means the PT didn't factor in the new launches or redemptions of funds after the start of the survey.



## 5. How far we have come close to the goal (2)

【Details for figures in the chart on page9】

- The PT returned funds that matured after the application for CLS/completion of the transition into funds that have completed the transition or funds that have applied for CLS, because the PT judged that it could grasp a trend of the ratio more accurately in this way given the long transition period and decisions to introduce CLS once at least by asset managers, after facing a situation where multiple supersized funds matured and the balance of funds that have completed the transition remained flat or declined from the previous base date by excluding these redemptions.

### ■ No. of funds/Balance of funds that have applied for the transition or introduced CLS by Dec. 2024

■ Survey result  
before adjustment

	Funds that have completed the transition	Funds that have applied for CLS	Total of the two	Funds that haven't applied yet	Funds that have matured	Total
No. of funds	3,081	47	3,128	2,672	2,022	7,822
	39.4%	0.6%	40.0%	34.2%	25.9%	100.0%
Asset balance (JPY 1 billion)	133,474	890	134,364	36,023	46,659	217,046
	61.5%	0.4%	61.9%	16.6%	21.5%	100.0%

■ Figures for  
adjustment

	Funds that have matured after the transition	Funds that have matured after the application	Funds that have matured after the transition or the application			
No. of funds	479	106	585		-585	7,822
	6.1%	1.4%	7.5%		-7.5%	100.0%
Asset balance (JPY 1 billion)	25,998	3,068	29,066		-29,066	217,046
	12.0%	1.4%	13.4%		-13.4%	100.0%

■ Survey result  
after adjustment

	Funds that have completed the transition	Funds that have applied for CLS	Total of the two	Funds that haven't applied yet	Funds that have matured	Total
No. of funds	3,560	153	3,713	2,672	1,437	7,822
	45.5%	2.0%	47.5%	34.2%	18.4%	100.0%
Asset balance (JPY 1 billion)	159,473	3,958	163,430	36,023	17,593	217,046
	73.5%	1.8%	75.3%	16.6%	8.1%	100.0%

## 5. How far we have come close to the goal (3)

[Gap between the To-Be state and the As-Is state]

	Foreign currency balance	No. of funds
Our goal set in Jul. 2021	About 80%	62.1%
Our achievement as of Dec. 2024	75.3%	47.5%

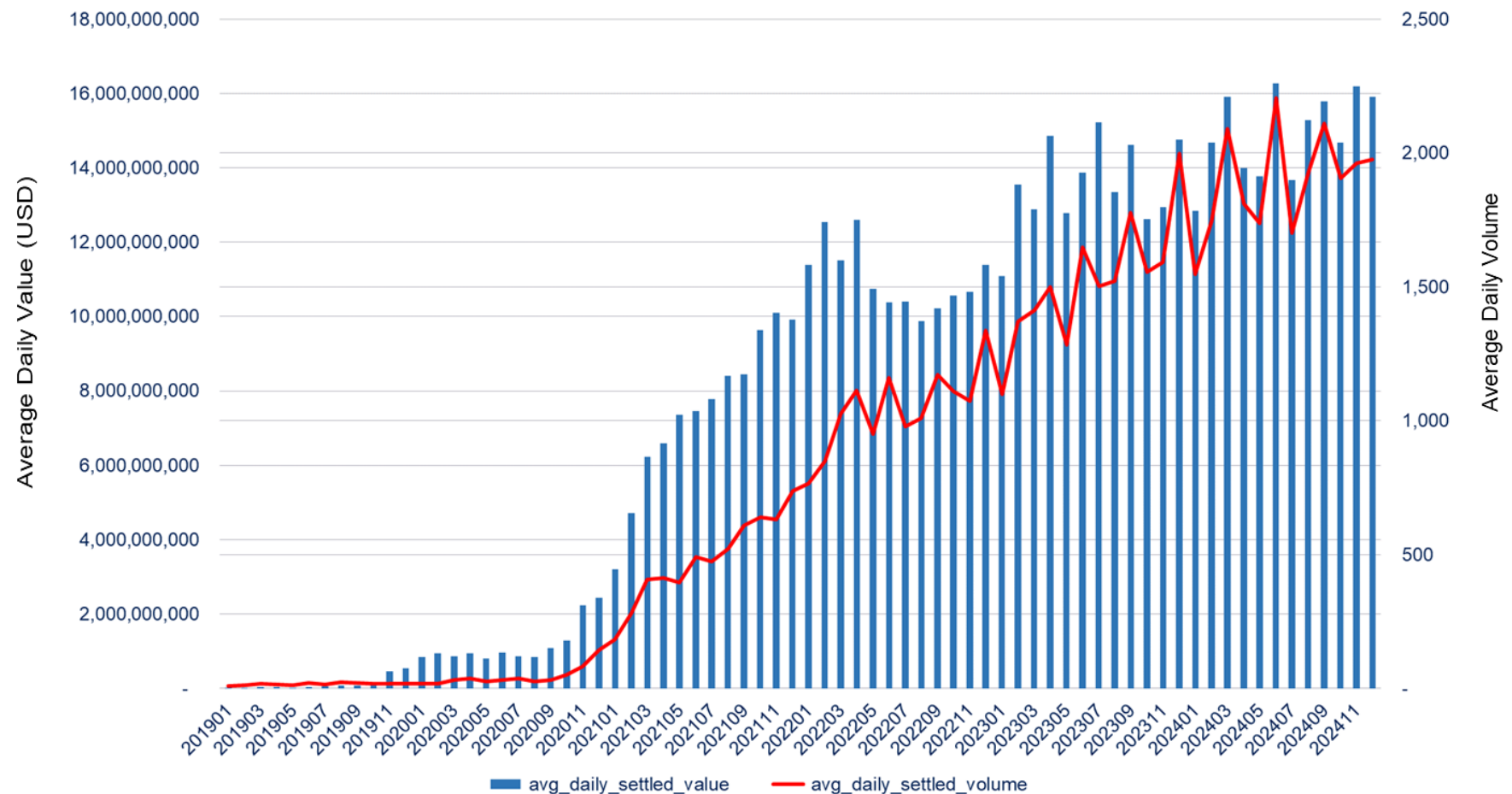
[Factors causing this gap]

- ✓ While there are more than 100 asset managers (AMs) in Japan and each AM shall decide whether to introduce CLS or not, the PT set its initial goal based on results of a questionnaire survey conducted in July 2021 when most AMs were discussing their policies to introduce CLS, criteria to select funds that introduce CLS, etc.
- ✓ As the environment to use CLS is prepared across multiple industries, each AM unveiled its policy to introduce CLS with the size of its funds, how the CLS costs would affect performances of its funds, etc. in mind and made decisions on whether to introduce CLS for each fund or not based on specific situations.
- ✓ Funds other than investment funds, such as pension funds, shall decide whether to introduce CLS or not after consulting with their fund owners.
- ✓ Many funds matured during the transition period as it took more than 3 years for existing funds to adopt CLS. About a quarter of funds (2022 out of 7822 funds that were supposed to use CLS when the PT set its initial goal) matured by the end of 2024. The PT didn't adjust the denominator in calculating the ratio as its main aim was to grasp how far the introduction of CLS has made progress, pushing down the achievement rate.

## 6. To what extent trust funds have introduced CLS

- To what extent CLS has been introduced is shown below. Both the upward trend of the settlement value and the one of the number of transactions are slowing down.
- The average CLS settlement value per day in December 2024 was JPY15.9 billion.

CLS for fund transactions : The bar/line charts show a transition of daily settlement value in USD (left axis)/the same of the number of daily transactions (right axis) respectively.



## 7. Questionnaire survey of asset managers (AMs)

### ■ Outline of the questionnaire survey conducted by the PT

[Purpose] To check the progress of the introduction of CLS as of the end of Sep. 2024 , by when all the transactions should have been settled through CLS.

[Period] Nov. 20 to Dec. 20 in 2024

[Objects of the survey] The PT sent questionnaires to top 20 AMs in terms of the total balance of investment trusts and others in foreign currencies and received answers from all the companies. \*Top 20 companies account for about 80% of the investment balance in the whole industry.

Q1: Do you have internal rules, etc. for selecting funds that should introduce CLS? (We don't care about a decision-making process or the severity of the rules.)  
Seventeen companies said "Yes," and three companies said "No."

Q2: If you said "Yes" to the Q1, please tell us what kinds of standards you have for selecting funds that should introduce CLS? (You can choose multiple items.)

Measure an impact of CLS costs to your performance: 6 companies, Balance of foreign currency assets held by a fund: 2 companies, FX transaction volume by a fund: 1 company, Others: 12 companies (Make a comprehensive decision based on whether a fund engages in FX hedge transactions or not, its transaction volume, its size, etc. All the funds are supposed to introduce CLS, in principle.)

Q3: If you said "No" to the Q1, please describe why you don't have internal rules, etc. for selecting funds that should introduce CLS.  
All the AMs said that they would basically introduce CLS for all the funds.

Q4: Have you introduced CLS for existing funds that are supposed to do so or applied for the introduction of CLS for them?  
Fourteen companies said "Yes," Five companies said "No (The completion of the transition is in sight)," One company said "No (Undecided/No plan for the transition) (Two funds haven't introduced CLS yet.) ,

Q5: Have you applied for the introduction of CLS for newly launched funds that are supposed to introduce it in stages when they were launched?  
Fifteen companies said "Yes," Four companies said "No (They plan to apply for CLS in stages)," One company said "No (Undecided/No plan for the transition) (Because the company has no newly launched fund that is supposed to introduce CLS.)

Q6: Please calculate the CLS usage ratio based on the following formula.

"CLS usage ratio=CLS value/Transaction amount in the currency used for CLS" Base date: Nov. 29, 2024 (Friday)

0-49%	50-59%	60-69%	70-79%	80-89%	90-100%	Unanswered
3	1	1	1	2	10	2

Low ratios may be attributed to the fact that the PT set the base date on Nov. 29.

Q7: If you have any questions or opinions about the introduction of CLS, please feel free to ask or give them to us.

- ✓ We want you to establish a workflow that enables you to stop using CLS in the future after the transition.
- ✓ We want trust/FX banks to introduce CLS into newly launched funds earlier than now. So please prepare a clerical system/workflow for it as soon as possible.

## 8. The current status in Japan

### ■ How CLS has been used in Japan and a reputation of CLS, which was found from a questionnaire survey

- The PT held a couple of study sessions for AMs in collaboration with the JITA and the JIAA, which seems to have born fruits. Approximately 75% of AMs (Its target ratio was 80%) in terms of foreign asset balance has developed internal rules, etc. on the transition to CLS.
- The ratio in terms of the number of funds remained at about 50% (The PT's initial target was 60%), however, because small-scale funds need to weigh up cost-benefit performance and they also need to consult about the introduction of CLS with their fund owners.
- Each AM has applied for CLS based on its internal rules when they launched new funds.
- The PT judged that the whole industry understands the necessity of PvP settlement by now and this momentum is likely to continue. The PT concluded at the 19th meeting held in March 2025 that it mostly achieved its goal.

Purpose of the PT	Achievements of the PT
① Building trading practices, ...This purpose was set at the first PT meeting .	<ul style="list-style-type: none"> <li>• <b>Established market practices for FX transactions by trust funds in Tokyo.</b> (Mar. 2018)</li> <li>• Started to introduce CLS into funds that seem feasible at the initial phase (Oct. 2018)</li> <li>• Try to introduce CLS into as many transactions as possible at the full-fledged phase (Oct. 2019)</li> <li>• <b>The set-off mechanism among banks</b>, which is a unique practice in Japan, was abolished. (Mar. 2023)</li> </ul>
② Enlightening AMs ...This means to raise awareness about CLS.	<ul style="list-style-type: none"> <li>• <b>The PT held multiple study sessions, etc. for AMs</b></li> <li>✓ Raised awareness about CLS</li> <li>✓ Let points to be considered, etc. when the set-off mechanism among banks was abolished be known</li> <li>• <b>Each AM developed internal rules on the usage of CLS.</b></li> <li>• <b>The industry has mostly introduced CLS with a lasting momentum for the transition to CLS.</b></li> </ul>
③ Dealing with lack of capacity for the transition ...The PT had to face other tasks, such as resetting the time limit for target achievement, grasping the latest application/transition status.	<ul style="list-style-type: none"> <li>• The PT grasped the capacity of each AM and reset the time limit for the transition. (July 2021)</li> <li>• <b>The introduction of CLS by existing funds should be complete in the near future.</b></li> <li><b>About 75% of funds in terms of foreign currency balance and about 50% in terms of the number of funds has completed the transition.</b></li> <li>• The PT has checked the transition status of AMs as of the end of Dec. 2024 through a questionnaire survey of them.</li> <li>• <b>AMs have applied for CLS for newly launched funds based on their internal rules.</b></li> </ul>