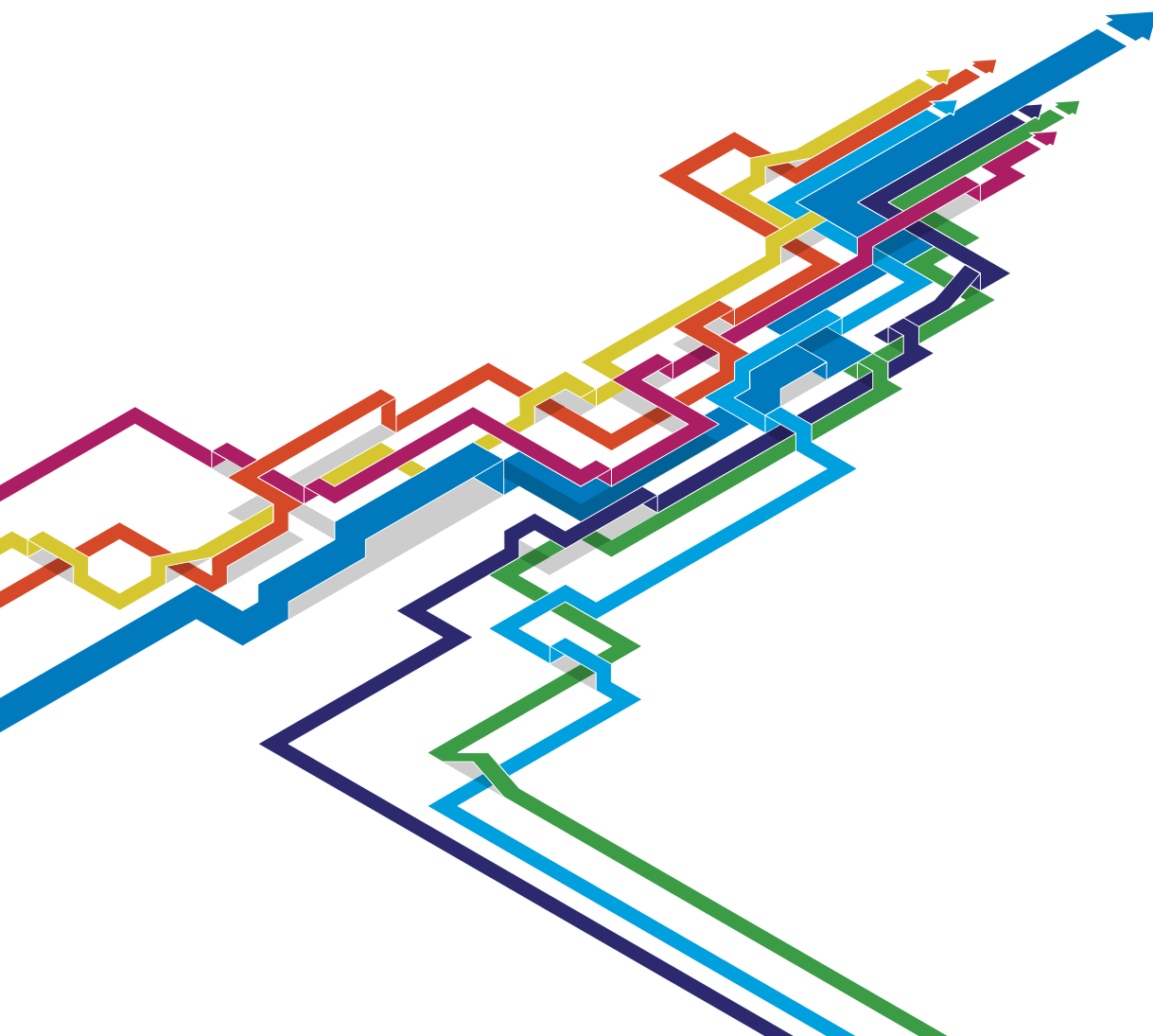




## About CLS



Mitigating settlement risk,  
**delivering** efficiency,  
growing **business**  
**opportunities**

**CLS**<sup>®</sup> Fundamental to FX

# About CLS<sup>®</sup>

CLS<sup>®</sup> Settlement<sup>1</sup> mitigates the risk associated with foreign exchange (FX) settlement across time zones.

In addition to mitigating settlement risk, CLS has improved efficiencies in FX settlement and facilitated growth in the market.

CLS changes the way the financial services industry operates by linking central banks and the world's leading financial institutions in a unique global real-time settlement system that has become the world's largest settlement service by value. According to the CPSS Consultative Report, CLS is now settling 55% of all FX transactions, proving how successful the service has become since its launch in 2002.<sup>2</sup>

CLS is the industry's response to increased and continuing regulatory concern about settlement and systemic risk associated with the growth in FX trading. CLS is the first global settlement system that extends the finality of domestic Real Time Gross Settlement (RTGS) systems to the international market.

<sup>1</sup> Offered by CLS Bank International (CLS Bank)

<sup>2</sup> Committee of Payment and Settlement Systems (CPSS) Consultative Report: 'Progress in reducing foreign exchange settlement risk', July 2007

# How CLS works

The CLS system is a process of instruction submission, authentication and matching, with related daily funding and settlement. The system receives payment instructions from Members, on average within 38 minutes of the trade. These instructions are authenticated and matched, and settlement eligible instructions are maintained by the system until settlement date. In the event that instructions do not match, both submitting Members are notified. The status of each instruction is available to relevant Members on a real-time basis.

On each settlement date, upon determining that the accounts of the submitting Settlement Members satisfy each of the risk management tests, CLS simultaneously settles each pair of matched instructions by making the corresponding debit and credit entries across the Settlement Members' accounts at CLS Bank. This all takes place during a five-hour window when there are overlapping opening times of the eligible currencies' RTGS systems. Working in real-time enables simultaneous settlement of both sides' payments for an FX trade.

CLS Settlement currently covers payment instructions related to trades executed in six main instruments: FX spot, forward, option exercises swaps and non-deliverable forwards and certain credit derivatives. Daily funding requirements are determined on a multilaterally netted basis which results in netting efficiencies in excess of 95% per day. This means that for every US\$1 trillion of value settled, the CLS community has to fund less than US\$50 billion in cash.

For instructions to be CLS eligible they must meet the following criteria:

- » both counterparties to the underlying trade must be CLS-enabled
- » both currencies must be eligible
- » instructions must be submitted to and matched in CLS before 06:30 CET on the relevant settlement date.

# CLS Bank operational timeline

Ongoing submission of instructions	Settlement cycle	Funding (Pay-In and Pay-Out processes)
up to 06:30 CET	07:00–09:00 CET	09:00–12:00 CET
Funding and settlement takes place during a five-hour window when the opening times of the relevant RTGS systems overlap and are open to send and receive funds.		
<p><b>Submit instructions</b></p> <p>Settlement Members submit payment instructions directly to the CLS system for matching. Instructions can be submitted up to 06:30 CET<sup>1</sup> for each settlement date.</p> <p>At 06:30 CET each Settlement Member receives its final net pay-in schedule for the day.</p>	<p><b>Funding and Settlement</b></p> <p>Settlement Members pay in net funds based on the 06:30 CET schedule to the CLS Bank account at the relevant Central Bank.</p> <p>CLS Bank settles each pair of matched payment instructions individually on a gross basis.</p> <p>Funding and settlement processing begins at 07:00 CET.</p>	<p><b>Execution</b></p> <p>Between 07:00 and 09:00 CET, CLS Bank continuously receives funds from Settlement Members, settles instructions across its books and pays out funds to Settlement Members until settlement is complete. Instructions that cannot immediately settle remain in the queue and are continually revisited.</p> <p>Settlement is normally completed by 08:30 CET.</p>
		<p>The funding and pay-out process continues until 10:00 CET for Asia-Pacific currencies and until 12:00 CET for European and North American currencies.</p> <p>Between 09:00 and 12:00 CET the pay-ins and pay-outs are completed. All funds will have been disbursed back to eligible Settlement Members by 12:00 CET, ensuring the efficient use of liquidity.</p>

The CLS operational timeline applies to CLS Settlement Members only. User Members and third parties settling in CLS may operate by a different funding timeline as agreed with their Settlement Member.

<sup>1</sup> The agreed best practice is to settle same day instructions outside CLS after 00:00 CET.

# Benefits of CLS Settlement

CLS **mitigates settlement** risk using a payment-versus-payment (PVP) system whereby both sides' instructions for an FX trade are settled simultaneously. In addition to CLS's primary purpose of mitigating settlement risk, the service has improved straight-through-processing, generated a number of operational and liquidity benefits, and therefore, **cost savings**.

CLS significantly **improves liquidity management** by providing Settlement Members with a multilateral net position on which to base required daily funding rather than gross transaction-by-transaction funding. This **reduces necessary funding** by over 95% each day. Payment risk is also reduced by the limited number of pay-ins and pay-outs between Settlement Members and CLS each day.

Participants can earn significant **cost savings** from multilaterally netted funding, and rationalising and consolidating nostro relationships. Member banks on average make only 26 payments per day irrespective of the value of trade settled — providing significant scaled benefits, a 99.75% payment volume reduction.

CLS results in further cost savings for participants as there are **minimal interest compensation claims** from failed settlements.

There are significant **business growth opportunities** to be derived from participation in CLS. CLS has facilitated an **increase in trading opportunities** as a result of changes to the credit approval process and risk controls. Both higher value trades with existing counterparties and increased trading with new counterparties are regularly reported and, as the FX market grows, **processing efficiencies from CLS** mean that operational headcount remains static.

CLS generates market leading cash forecasting through [faster matching and transparent position reporting](#). A daily pre-settlement report provides a net credit or debit position for each currency to allow for accurate funding decisions.

CLS provides [real-time information](#) electronically to Settlement Members, from instruction submission, through matching status and settlement. This enables improved [operational oversight](#) which allows Members to track settlements, eliminate errors, manage liquidity more effectively, and reduce operational risk.

# Who is involved?

## The CLS Group

CLS Group Holdings AG has two operating subsidiaries: CLS Bank International and CLS Services Ltd.

## CLS Bank

CLS Bank is an Edge corporation, a limited purpose bank regulated by the US Federal Reserve. CLS Bank provides the settlement service and, to do so, maintains an account with the central bank for each of the 17 eligible currencies.

## CLS Services

CLS Services, a company organised under the laws of England and Wales, provides technical and operational support to CLS Bank.

## Shareholders

CLS Group Holdings AG is owned by approximately 70 of the world's leading financial services institutions from around the world. These institutions are responsible for significantly more than half of the value transacted in the world's FX market.

Each Shareholder has an equal voice in the governance of the CLS Group. Membership in CLS Bank is limited to Shareholders and affiliates of these Shareholders.

## Settlement Members

A Settlement Member must have proven financial and operational capabilities and sufficient liquidity to support its financial commitments to CLS Bank. Each Settlement Member has a single multi-currency account with CLS Bank.

Settlement Members may submit payment instructions relating to their own FX transactions as well as the FX transactions of their customers directly to CLS Bank.

## User Members

A User Member does not have an account with CLS Bank, but is instead sponsored by a Settlement Member which settles the User Member's instructions through the Settlement Member's account with CLS Bank. Each instruction submitted by a User Member must be authorised by its sponsoring Settlement Member. A User Member may submit instructions relating to its own FX transactions as well as the FX transactions of its customers. In all cases, the sponsoring Settlement Member is responsible for all funding obligations relating to the User Member's instructions.

## Third parties

In CLS parlance, 'third parties' are customers of Settlement Members and User Members. Members must handle all instructions and funding on behalf of their third party customers since third parties have no direct access to, or relationship with, CLS Bank.

Third party customers are institutions that participate in FX, typically banks, non-bank financial institutions and multinational corporations. Most of the recent interest and growth in third party participation has come from the investment management industry.

## Third party service providers

Third party service providers are Settlement Members and User Members who offer CLS related services to their customers, so that the customer may achieve the benefits of CLS Settlement as a third party.

Visit [www.cls-group.com](http://www.cls-group.com) for a list of current Settlement Members, third party service providers and live third parties. Email [joincls@cls-group.com](mailto:joincls@cls-group.com) for more information about how to get involved.

## Be part of the industry solution that is now the standard for FX settlement

To find out how CLS can transform your organisation visit [www.cls-group.com](http://www.cls-group.com),  
email: [joinus@cls-group.com](mailto:joinus@cls-group.com)  
or call CLS in:

Asia: +81 (0) 2 3517 2791  
Europe: +44 (0) 20 7971 5700  
North America: +1 212 943 2290

CLS and the CLS logo are registered trademarks of CLS UK Intermediate Holdings Ltd.

© 2011 CLS UK Intermediate Holdings Ltd.

