

CLS[®]



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



The market standard for FX settlement.

CLS for banks

CLS[®] Settlement¹ eliminates the risk associated with foreign exchange (FX) settlement across time zones.

The CLS concept is the banking 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. With CLS, both sides' instructions for an FX trade are settled simultaneously on a payment versus payment (PvP) basis and with finality.

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.

A new way of thinking

CLS is the established market standard for FX settlement within the banking community and participating banks use CLS to settle the vast majority of their eligible trades. The reduction in trade processing costs due to liquidity and operational efficiencies in CLS has helped banks to achieve significant volume growth without increasing the number of processing staff employed.

This has not only supported significant growth of the FX industry as a whole but has also aided the recent introduction of algorithmic trading.

CLS is the market standard for FX settlement and the benefits don't stop there.

¹ Offered by CLS Bank International (CLS Bank)

“ Banks that are afraid of change stagnate, lose much of their vigour and are not able to bring the best quality of service to their customers. We strive to differentiate ourselves especially if the changes bring great advantages like CLS in terms of settlement risk elimination. ”

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Benefits

Elimination of settlement risk

By providing a payment vs payment (PvP) settlement process with legal finality, CLS Bank protects against loss of principal associated with FX trades. In the event of settlement failure, neither of the two instruction for an FX trade will be settled and the related funding is returned to the CLS Settlement Member.

For trading desks, elimination of settlement risk and shorter, more secure settlement periods, means traders can expand their FX business. This allows greater access to counterparties without increasing risk.

Operational efficiency and cost savings

Users have achieved cost savings through operational efficiencies from:

- Enhanced straight-through-processing (STP);
- Reduced number of payments and associated transaction costs;
- Reduced errors, virtually no instances of settlement failure;
- More efficient allocation of both monetary and physical resources.

Active management of settlement process

CLS-enabled banks are able to send participants a report of trades whose instructions have not matched in CLS. Any issues arising can be actively managed in advance of settlement rather than the cumbersome process of resolving issues following a settlement failure.

Minimised interest charges and compensation claims

Pre-settlement matching reduces risk of settlement failures and, consequently, any resulting interest compensation claims.

Improved liquidity management

The CLS settlement cycle involves same day funding which minimises the time funds are tied up to prepare for and complete settlement. Furthermore, whilst settlement in CLS occurs on a gross, individual PvP basis, funding required for settlement is calculated on a multilateral netted basis. Multi-lateral netting significantly reduces the number and amount of payments that must be made to CLS. This netting effect can also be beneficial in reducing the size of intra-day credit lines required.

Increase in reconciliation speed

Participants can minimise the number of payments needed to settle a day's trades which speeds up cash reconciliation.

Increased trading lines

The elimination of settlement risk allows counterparties to increase their trading capacity without increasing their settlement limits or, alternatively, allows counterparties to reduce settlement limits and maintain their levels of trading.

Enhanced business opportunities

Greater credit availability from settlement risk elimination can lead to more trading opportunities with a wider range of counterparties and potentially higher value trades at the best price, than may have been available without CLS Settlement.

Regulatory compliance

Using CLS assists compliance with the Basel II Committee Guidance for Managing Settlement Risk in Foreign Exchange Transactions, and operational oversight and control throughout the transaction life cycle can help organisations meet compliance with Sarbanes-Oxley and equivalent legislation.

The recent CPSS Report: *Progress in reducing foreign exchange settlement risk* highlights the need for action to remove settlement risk from the remaining 45% of transactions not currently settled by CLS, and CLS Bank is seen as an important contributor to this objective.

CLS is continually working with its Members and the market to extend the current service to further currencies and enhance the capabilities of the system by settling additional traded financial products.

For more information, please visit www.cls-group.com

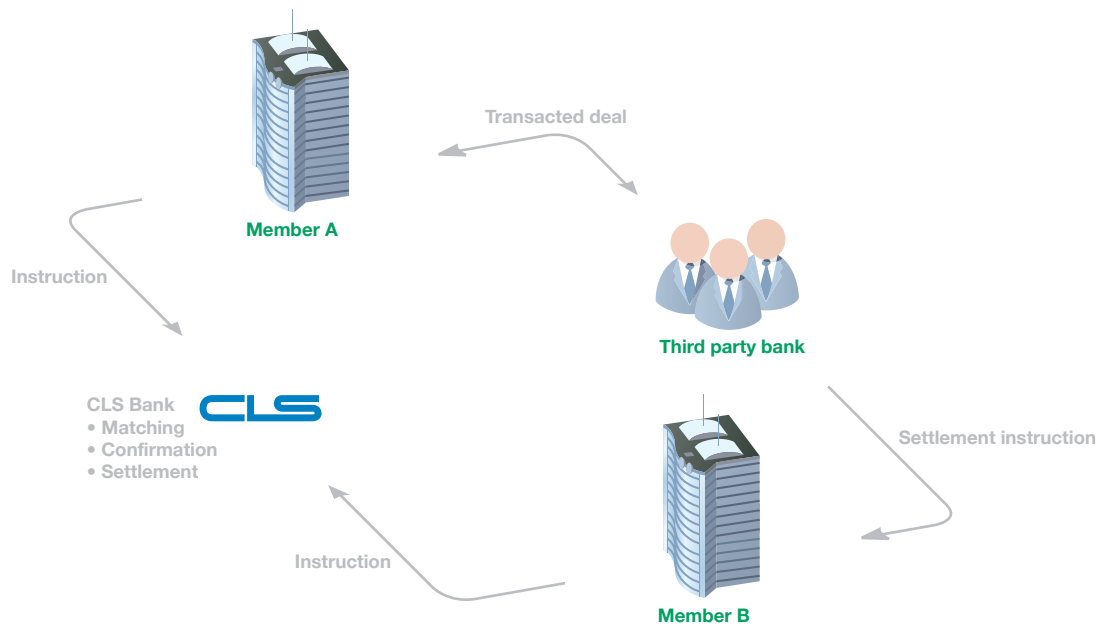
Who can use CLS?

If you are interested in using CLS Settlement you can either become a CLS Settlement Member and have direct access to the CLS system or you can use a CLS Member third party service provider.

Using CLS

Using CLS as a third party is simple. Your selected CLS Member will submit instructions relating to your trades and it is able to provide you with an interface with a system that allows you to submit your trades and see real-time trade status and settlement information.

In many cases, a service provider will allow you to use your existing nostro accounts for CLS funding purposes.



Implementation

You must have a CLS service provider to sponsor FX trade settlement in CLS. The following steps are offered as a guide to implementing CLS:

1. Establish whether your clearing banks offer CLS Settlement.
2. Visit www.cls-group.com for more detailed information and a list of CLS Members offering third party services.
3. Assess volumes and values of trades in current and future CLS eligible currencies.
4. Ensure that your key counterparties have access to CLS.
5. Establish a project group to assess business case and feasibility.
6. Review and develop your back office processes and test as appropriate.

Implementation typically takes between three and six months from the initial meeting with your selected service provider, although this can vary. The expenditure on back office modifications is different for every bank; however, the potential savings from settling via CLS are easily identified.

CLS has worked with vendors of applications and services to facilitate CLS connectivity and operation. For a list of vendors please visit: www.cls-group.com

“ Our experience is proving more cost effective in terms of back office resources in addition to achieving the anticipated risk reductions. We intend to build on the greater level of STP which we have seen under CLS, particularly in the area of settlement instructions within confirmation matching. ”

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