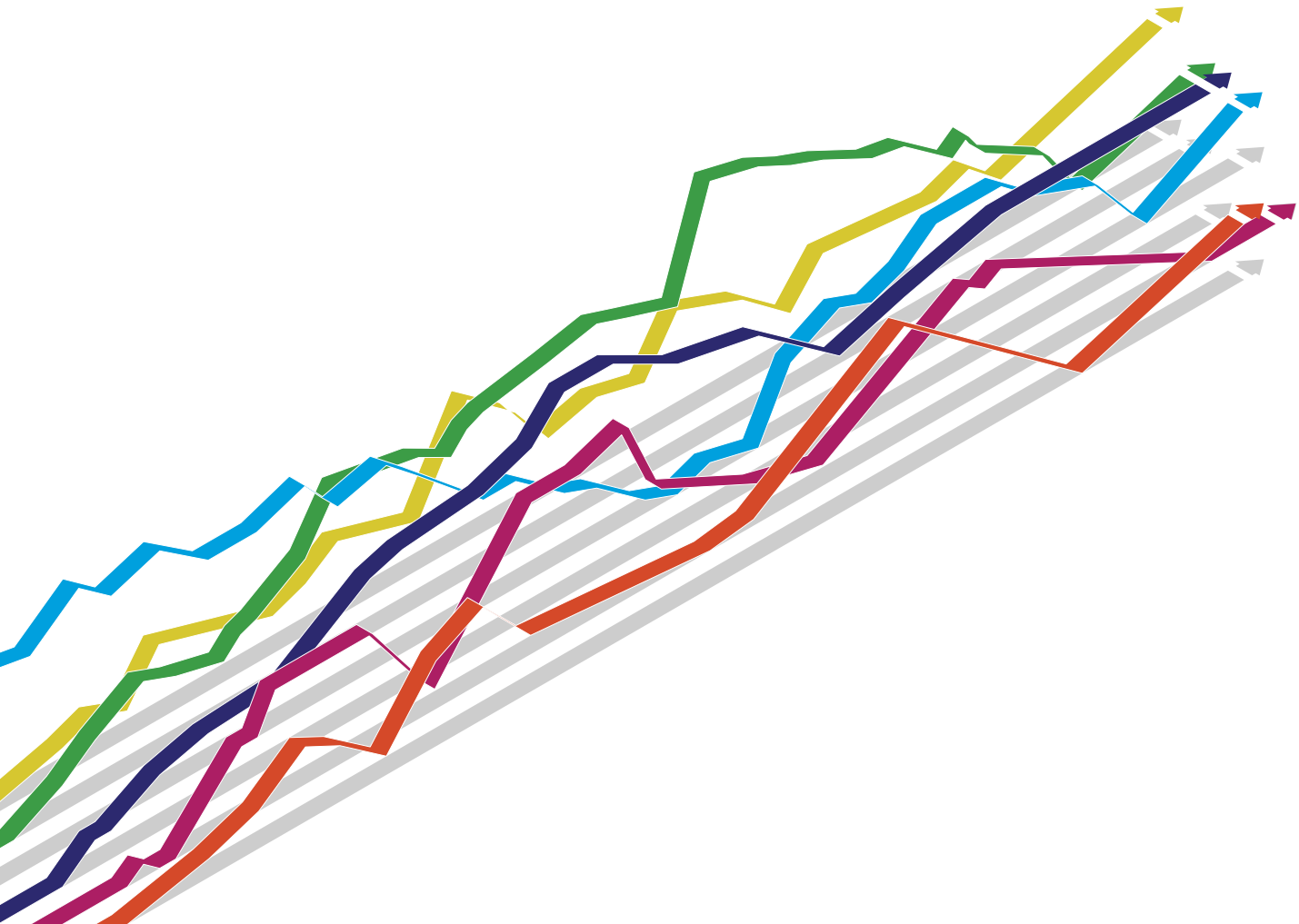




Investment managers



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

CLS[®] Fundamental to FX

CLS[®] for investment managers

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

The asset management industry has placed increasing importance on FX trading in recent years. Currency has become an asset class of its own in the pursuit of alpha. Investment in cross-border securities has seen increasing interest and forward contracts are used to hedge currency exposure within a portfolio. Increasingly, FX trading with third parties is mandated and demands competitive rates. These exchanges of currency carry exposure to settlement risk. CLS was designed to provide a comprehensive settlement service that mitigates this risk.

A new way of thinking

At the operational level, investment managers are often unaware of settlement issues until the day after the original settlement date or even later. These issues take time and effort to resolve. Meanwhile, interest charges and compensation claims may accrue until the issue is cleared.

Dealing with the concentration of trades with quarterly roll-over dates is particularly arduous. There is a better way.

CLS allows investment managers to proactively manage settlement throughout the trade lifecycle in real time. CLS member banks and fund custodians submit settlement instructions to CLS where they are matched promptly. Unmatched instructions are easily identified and resolved. Matched instructions are then stored by CLS and processed for settlement on their scheduled settlement date. This gives investment managers and their middle office staff a dramatically improved level of oversight of the entire process and the time to resolve any issues with their custodian or broker bank prior to the settlement date.

Growing FX volumes have increased exposure to settlement and operational risk. The need for more efficient processing is obvious given the growth in trading volumes. Increased regulatory requirements for best execution cover execution and post-trade processes, not just price.

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

¹ Offered by CLS Bank International (CLS Bank)

Benefits

"Our implementation of CLS was driven by the need to reduce our FX settlement risk and our perception of CLS as the final link in our STP goals. The benefits in both areas have been tangible. Where we have been able to use CLS, credit limits have ceased to be an issue, and the time saved on trade failure investigations has been considerable."

Newton Investment Management

Mohsin Siddiqi, Supervisor,
Trade Operations

Mitigation 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 instructions relating to an FX trade will be settled and the related funding is promptly returned to the CLS Member.

Operational efficiency and cost savings

Users have achieved cost savings through operational efficiencies from:

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

Active management of settlement process

CLS-enabled broker banks or custodians 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 includes same day funding which minimises the time funds are tied up to prepare for and complete settlement. Furthermore, settlement in CLS occurs on a gross, individual PvP basis, but funding required for settlement is calculated on a multilateral netted basis which 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.

Benefits (cont.)

Increased trading lines

The mitigation 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 mitigation 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 with best execution

CLS demonstrates to auditors and risk managers a sharply reduced exposure to settlement risk, and decreases the potential liability to claims and other settlement charges. Operational oversight and control throughout the transaction life cycle can help organisations meet compliance with Sarbanes-Oxley and equivalent legislation. Because CLS significantly reduces the risk of settlement failures, trades with broker banks can be executed with high assurance that the deal will settle accurately and on time. Access to competitive pricing for FX demonstrates, in part, best execution policy objectives in accordance with MiFID.

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?

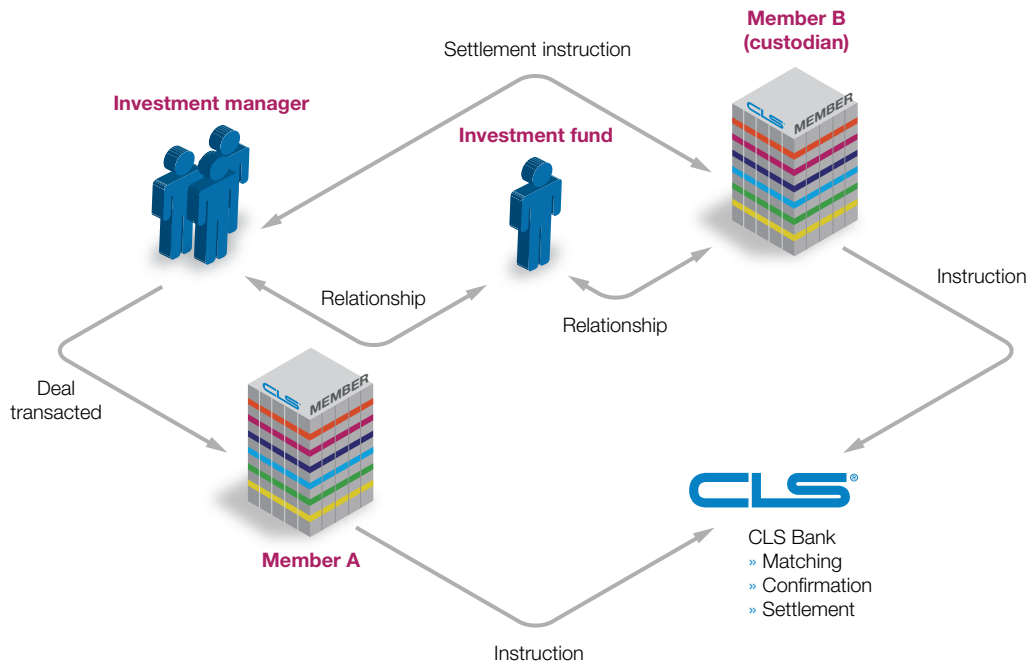
CLS is available to the investment management community through CLS-enabled custodians and broker banks. This community includes:

- » Investment fund managers
- » Hedge funds
- » Pension funds
- » Overlay funds
- » Third party custodians

Using CLS

The investment management community can settle via CLS if their custodian and FX broker bank have the ability to settle via CLS. Upon the advice from the fund manager, the custodian or third party custodian, will submit the settlement instruction to CLS which will then match it with the instruction received from the broker bank. This normally happens within minutes. On settlement date, if the instructions meet CLS Bank settlement criteria, settlement will occur or the related funding of the two payments for the FX trade will be returned.

For specific details on how to begin settling instructions via CLS, please speak to a CLS-enabled custodian or third party service provider.



Implementation

You must have a CLS enabled custodian and broker bank(s) to settle FX trades in CLS. The following steps are offered as a guide to implementing CLS:

1. Establish whether your banks can offer CLS Settlement.
2. Visit www.cls-group.com for more detailed information and a list of CLS custodians offering CLS Settlement.
3. Ensure that your broker bank has access to CLS.

Contact your custodians and FX broker banks to review what you will need to implement CLS. It has been reported that the appropriate system changes have taken as little as two weeks.

CLS complies with industry standards and was designed to require minimal system changes. It uses existing SWIFT message types, existing fund ID standards and SWIFT FIN fund ID structure.

The expenditure on back office modifications is different for every firm; however, the potential savings from settling via CLS are easily identified.

"CLS adds another level of control to our trading process and has significantly reduced what we need to do manually which is fantastic. CLS is also risk-reducing for our clients as the potential for settlement errors and the cost of them is eliminated."

**Record Currency
Management**

Joel Sleight, Director of
Operations

